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YOUTH EMPLOYMENT AND THE MINIMUM WAGE

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YOUTH EMPLOYMENT AND THE MINIMUM WAGE

WEDNESDAY, JUNE 27, 1984

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 340, Cannon House Office Building, Hon. Daniel E. Lungren (member of the committee) presiding.

Present: Representatives Lungren and Scheuer.

Also present: Charles H. Bradford, assistant director; and Deborah Clay-Mendez and Mary E. Eccles, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE LUNGREN, PRESIDING

Representative LUNGREN. I am very pleased to welcome two distinguished economists, Mr. Walter Williams of George Mason University and Mr. Paul Osterman of Boston University, to today's hearing of the Joint Economic Committee. Mr. Williams and Mr. Osterman have come here today to testify about the serious problem of youth unemployment faced by our Nation and about the relationship between youth employment opportunities and the minimum wage.

During the past 1½ years of economic recovery general labor market conditions have improved. Unemployment among adults has fallen precipitously. Yet unemployment among youth persists at an unacceptable level. We cannot rely, evidently, exclusively on economic growth, however sustained and vigorous, to help our youth find the jobs they seek under present conditions.

Over the course of the past 30 years there has been a well-documented rise in the level of youth unemployment. For all youth aged 16–19, the unemployment rate grew from 12.6 percent in 1954 to 17.8 percent in 1980, and to 18.5 percent in May of this year. Over these same three decades the gap between unemployment rates of the white and nonwhite youths grew from virtually zero to more than 25 percentage points. In May of this year the unemployment rate among black youths aged 16–19 was 42.3 percent. The rate for Hispanic youth was 21.7 percent.

As dramatic as they are, these unemployment figures understate the true severity of the problem because they do not take into account youths who, discouraged by previous failures to find a job, have ceased to actively search for employment.

Unemployment among the young is a tragedy that should be of concern to all Americans. In the past efforts to deal with youth unemployment through programs linking education and training to employment opportunities have achieved widespread bipartisan support.

Many of the provisions of the Job Training Partnership Act enacted in 1982 are specifically designed to help disadvantaged youth obtain the qualifications required for productive jobs in the private sector.

It is clear, however, that much more needs to be done, and it may now be time to try a different approach. In an effort to expand employment for unskilled youth the administration has proposed the enactment of a youth employment opportunity wage. Under this proposal youth below the age of 20 could be paid a wage of $2.50 per hour, 75 percent of the existing Federal minimum wage, during the summer months. The youth employment opportunity wage is intended to complement rather than to substitute for existing youth programs such as the targeted jobs tax credit, the Summer Youth Employment Program, and the training programs available to youth under the Job Training Partnership Act.

The proposal is innovative, controversial, and it is sparking a national debate about the nature of youth unemployment and the relationship between youth employment opportunities and the Federal minimum wage. Its endorsement by the National Conference of Black Mayors on April 18 is stimulating even more discussion. It is my hope that this morning's hearing of the Joint Economic Committee will provide an open and informative discussion of the evidence relating to this important issue and not merely be focused on the administration's proposal, but the nature of the problem of youth unemployment as well as the impact of minimum wage and other aspects.

I think I would ask to start off with Mr. Paul Osterman, associate professor of economics at Boston University, presently on leave as director of policy, planning, and evaluation, the Office of Training and Employment Policy for the Commonwealth of Massachusetts.

You may proceed as you wish, Mr. Osterman.

STATEMENT OF PAUL OSTERMAN, ASSOCIATE PROFESSOR OF ECONOMICS, BOSTON UNIVERSITY

Mr. OSTERMAN. Thank you.

I think it is clear why we are here. As you just indicated, the unemployment rates of teenagers in general are very high; the unemployment rates of minority teenagers are shocking; and everyone is searching for a solution to that problem. Employment programs for young people have been the staple of employment training programs for the last 30 years, and in recent decades, in addition to proposals to lower the minimum wage, there has been a wide variety of youth employment training programs, particularly the so-called Youth Employment Demonstrations Project Act under the last administration.

The issue that I want to talk about today, is whether proposals to lower the minimum wage for youth, a differential minimum wage for young people, are likely to be a significant solution to unemployment problems for teenagers and for minority teenagers in particular. A complete prepared statement has been delivered to you.

What I will do is to address three issues.

First I will ask, Will proposals to lower the minimum wage accomplish the objectives described by their advocates; namely, providing additional jobs for young people?

Second, I will ask whether the policy is well targeted? That is to say, even if it did provide some additional jobs for young people, would those jobs go to the youths who most need them?

Third, I will ask what are the costs of this policy? If the policy accomplishes its goals, what price do we have to pay to achieve that?

My conclusion will be that a lower minimum wage for youths will provide some additional jobs. Those jobs are not well targeted; that is to say, they are unlikely to go to the young people who most need them; and that the cost of providing those jobs will be quite high in terms of lost employment opportunities for adults.

After I make this case, I will then talk about what I think a more hopeful and positive youth employment policy might look like.

So the first question I will address is, Will additional jobs be created for young people?

The theory behind lowering the minimum wage is very straightforward. If a certain group of workers, for example, young people, are able to work for a lower wage, employers will use more of them relative to other possible sources of labor. In addition, because the wage bill overall will be somewhat lower, the total output of the economy might rise, providing additional jobs. For example, it will be cheaper to produce hamburgers, the price of hamburgers might fall, additional young people might be employed.

I want to make one caveat even at this point, and that is to say that the additional jobs which might result from this policy does not necessarily translate into a proportional decrease in the unemployment rate. And the reason for that is that as jobs are added to the economy, as we all know more people flow into the labor force. This is not simply a youth phenomenon; this happens in economic recoveries for all demographic groups. As more people flow into the labor force the unemployment rate will not fall proportionately to the new job creation.

Having said that, let me go back to the main issue, whether a lower minimum wage for youth will generate any additional jobs.

Many people are hostile to the notion of a lower minimum wage for youth; they are skeptical that any jobs at all will be created. And it is easy to understand why that skepticism might exist. Throughout the postwar period, despite increases in the minimum wage, and despite increases in the coverage of the minimum wage, overall youth employment has risen, and risen quite substantially.

For example, in 1970 total 16–19 year old employment stood at 6.1 million; in 1980 it stood at 7.7 million. More strikingly, for white teenagers, but not for black teenagers, their employment-to-population ratios, that is to say, the fraction of white teenagers who are employed, has not declined at all in the postwar period, and in fact, the chart that the committee so thoughtfully provided indicates that. If you look at the graph for white teenagers you will see that the employment-to-population ratio in 1983 for white teenagers is roughly the same as it was much earlier in the postwar period.

So in general the labor market for youths seems to have performed well throughout the postwar period.

In order to discover a disemployment effect from increases in the minimum wage you therefore have to perform a what-if statistical experiment. Instead of discovering jobs that disappeared, you have

to ask how many jobs would have been there had the minimum wage not been increased. This kind of hypothetical what-if experiment is the staple of economists. That's how most economists make their living, running the kind of statistical equations that lie behind hypothetical experiments like that. In fact, studies of minimum wage have been an industry among economists. A recent literature review, a fairly definitive literature review, identified well over a hundred articles asking what if and performing different what-if experiments.

The problem with these experiments is that the outcome is sensitive to technical issues and different researchers will arrive at somewhat different conclusions, depending on how they use their data, how they define their terms, and so forth. Much safer than relying on any individual study is to look for a consensus among the studies and to see whether the hundred studies arrive at a general conclusion with which we can be confident. In fact there is a rough consensus, and the Minimum Wage Study Commission, which issued its report a couple of years ago, arrived at that consensus.

The consensus was that increases in the minimum wage have a modest depressing impact on youth employment. The Minimum Wage Study Commission argued, on the basis of these studies, that a 25 percent youth differential would increase overall youth employment by between 2.5 and 5 percent. Using 1983 employment levels, what that translates to is to between 158,000 and 316,000 additional youth would be employed if the 25 percent differential was in place.

Now let me put those figures in some perspective. If we take the midpoint, say 237,000, the average between the low and the high estimates, and ask what the overall youth unemployment rate would be had those additional jobs been in place, the answer is that instead of a 22 percent unemployment rate it would have been 19 percent had no additional youths flowed into the labor market in response to those jobs. The more likely scenario, which I described, is that some additional youth would flow into the labor market, and therefore the unemployment rate, instead of being 22 percent, would more likely have been 20.5 percent. A reduction, but hardly a major reduction.

For black youths, if they got their share of those extra jobs, their unemployment rate would have fallen from 48 percent to between 44 and 46 percent, depending on what assumption you make about the labor supply.

The point I want to make is that yes, some additional jobs would have been created, but no, the unemployment rates for teenagers in general and for minority teenagers in particular would not fall to anything that any of us would regard as acceptable levels.

So my answer to the first question is, some additional jobs, yes; large numbers of additional jobs, no.

The second question I posed is, Is the policy well targeted? That is to say, would those additional jobs go to the people who most need them. The answer here, I think, is no, and the reason the answer is no is that most youths who work at minimum wage jobs come from fairly affluent families. In 1980, using 1983 dollar amounts, 70 percent of all minimum wage workers who were teenagers came from families that earned at least $22,000 a year, and nearly 40 percent of all teenage minimum wage workers came from families who earned $38,000 a year or more. To repeat, large numbers of teenage minimum wage

workers come from affluent families. These people most certainly would get their share, if not more than their share, of the additional jobs created by a lower minimum wage for youth. The consequence would be that minority teenagers, low income teenagers who most need these additional jobs would get some but far from the lion's share of those jobs.

Unlike the Job Training Partnership Act or the Summer Youth Program, whose jobs are explicitly directed to economically disadvantaged youths you cannot target who gets the benefits of the lower minimum wage, and in that sense it is a loose or a shotgun approach to the problem.

The third question I asked is. What are the costs of this policy? Let's hypothesize. If we went ahead, lowered the minimum wage for youths, created some additional jobs, albeit jobs not necessarily going to those who are most in need, what price would we pay for that? I think there are two costs.

The first cost is that a substantial number of adults would lose their job.

The second cost is that the minimum wage as an institution would be undermined.

Let me talk about adults first.

The same logic that leads you to think that a lower minimum wage for youths would increase unemployment opportunities for youths leads you also to think that there would be some substitution of the youth workers for adult workers if employers could hire youth workers for less than adults. The consequence of that would be a substitution effect.

I do know that the legislation currently under consideration for the summer differential has a prohibition against substituting youth for adults, but that prohibition, in my view, is a dead letter, and the reason is because it only speaks to the most blatant case of an employer walking in and saying to an adult, "I'm sorry, John, but I am going to lay you off and hire your teenage son." That is not how the substitution would occur. The substitution would occur as firms expand. Instead of hiring additional adults which they might otherwise hire, they will hire additional youths. As firms contract they will lay off relatively more adults than they otherwise would have and keep relatively more youths.

In other words, it will be absolutely impossible to monitor or enforce the kind of prohibition against substitution which that legislation or any comparable legislation contains. The substitution will occur not through "you're out of a job, I'm hiring Sam," but rather through the gradual replacement of adults by teenagers.

The Minimum Wage Study Commission estimated that approximately between 50,000 and 150,000 adults would lose their jobs if a 25-percent differential for youth were enacted. If you take the midpoint, approximately 100,000 adults would lose employment.

To lend credibility to that argument, people should realize that most minimum wage workers are adults, not teenagers. In fact well over 50 percent of all individuals who work at the minimum wage are over the age of 24. Of those people, 70 percent are adult women. So there are large numbers of low income adults who work at minimum wage whose jobs would be endangered by this policy. If the differen-

tial wage were enacted we would face the prospect of affluent, well-off teenagers being substituted for poor adults. Virtually all adults who work at the minimum wage are poor. Large numbers of teenagers who got these additional jobs would be from affluent families. We would have well-off teenagers displacing poor adults. I would argue that that is quite poor social policy.

The second cost of a youth differential would be that it would undermine the minimum wage itself. It would do so in several ways.

Let me step back. It is clear how a youth differential would undermine the minimum wage. It would be a very substantial exception to the law and the law would lose teeth over time. The question we should ask is, Is it desirable to undermine the minimum wage, is the minimum wage itself a good institution? Now that's a very broad question, and I can't go into that in a great deal of detail. Let me argue, though, that there are good reasons to support the minimum wage as an institution.

First, it provides benefits for poor people. That is to say, the total income flowing to poor people is higher as a result of the minimum wage.

Two things happen with the minimum wage. Some jobs disappear, as I have argued or admitted. On the other hand, those people who work do so at a higher wage. In fact all of the evidence in the economics literature suggests that the higher wage effect is larger than the job disappearance effect. On balance, poor people as a group have more aggregate income as a result of the minimum wage. Not a great deal more, but more. The minimum wage is a positive redistributional tool.

The second reason the minimum wage is desirable is that it is part of a package of enforcement to prevent substandard labor conditions. Sweat shops that hire undocumented workers—and I know this is an issue of special concern to their chair of the committee—don't pay the minimum wage and they don't adhere to hours laws and they don't adhere to occupational health and safety standards. Substandard conditions are part of a package, and avoidance of the minimum wage is a significant piece of that package. Enforcement of the minimum wage would go a long way toward eliminating other substandard conditions.

The point, then, is that the second cost of a youth differential is undermining the minimum wage, but I would argue that the minimum wage itself is a desirable institution.

Let me summarize what I have said.

First, I've agreed with advocates of the proposal that there would be some additional jobs created were a youth differential implemented. There may be some disagreement about the number of jobs, however, and we can come to that.

Second, I've said that those jobs would not go to those youths who most need them.

Third, I've said those jobs would come at substantial cost: Loss of jobs for adults and undermining the minimum wage.

Let me just say a few words about the summer differential itself.

The summer differential, which is the legislation which is under consideration now, would enact a differential for only a summer period. In fact the youth labor market in the summer works remarkably well. Last summer between April and July an additional 2.5 million jobs were created by the economy for youth. Of those, 1.7 million were private sector jobs. The economy seems to perform quite well in providing summer jobs. That's the first point.

Second, the estimates of additional jobs to be created by the summer differential, the estimates I've seen from the administration on the order of 400,000, I think are wildly too high. And the reason for that is because they are based on the statistical evidence that I've gone through earlier. The administration has chosen the high, the most extreme of those estimates, but all of that statistical evidence is premised on a differential year round, a permanent differential, not a 3- or 4-month-differential. The additional jobs created by a temporary differential would be far fewer—and I could go through the logic later on, if you are interested—than those created by a permanent differential. So the administration estimates are much, much too high on additional youth employment.

If lower minimum wages are not the way to go, what is? Basically the problem in the youth labor market is a problem with two groups: Dropouts and minority youth. Dropouts because there is clear evidence that the large numbers of people dropping out of our school systems suffer much greater economic deprivation than do people who graduate from high school, even if they don't go on to college. And there is also good evidence that illiteracy rates are very high and are rising, particularly among minorities, and the dropout rates are high and rising.

The second problem in the youth labor market is the minority unemployment problem. The labor market for black and Hispanic teenagers has collapsed, just absolutely collapsed, and the collapse is sharpest in the 1970's.

The causes of that collapse are complex. They have to do with movement of jobs from the inner city to the suburbs, from poor schools, from racial discrimination, from the change in the labor market from a labor market emphasizing blue-collar jobs to a labor market emphasizing white-collar jobs, from increasing competition from undocumented workers and women.

The solutions have to be equally complex. They cannot be simplistic in the sense of a simple differential in minimum wage.

If you are interested about details on what those solutions might look like, my view is what is needed are for the relatively small numbers—when I say relatively small I mean that all unemployed teenagers do not need assistance; rather a subset, a small fraction of that group, needs substantial assistance. For those individuals what is needed are, first, training programs which combine remedial education, skill training, and behavioral therapy or assistance. Second,

those skill training programs must be substantial. They can't be quick, 6-month programs, as is typically the case. We need to have programs that work closely with the school systems to prevent dropouts, and it is possible to generate such programs. And we need alternative education programs for individuals who have already dropped out.

I would be happy to go through those kinds of programs with you if you are interested.

The point I want to make is that we have had substantial experience with youth employment training programs, we have a good sense of what works for dropouts, we have a good sense of what works for people who are potentially dropouts, we know how to address the problem, we have the tools at hand, and rather than a shotgun policy approach, which is what the youth differential minimum wage is, we could, if we wanted to, design a creative youth employment program. Thank you.

[The prepared statement of Mr. Osterman follows:]

Prepared Statement of Paul Osterman

My name is Paul Osterman. I am Associate Professor of Economics at Boston University. I recently completed a year's term as Director of Policy, Planning, and Evaluation for the Office of Training and Employment Policy in the Commonwealth of Massachusetts. In this position I held major responsiblity for the implementation of the Job Training Partnership Act. I have also served as consultant on employment policy to a wide variety of public and private agencies and am presently a member of a National Academy of Science panel charged with reporting on the current state of knowledge concerning youth employment programs.

My task today is to discuss the merits of using variations in the legislated minimum wage as a tool for remedying youth unemployment. As you well know, this has been a controversial suggestion for years and there are many advocates of the view that a reduction of the minimum wage for youth would be an important and desirable step. This proposal was rejected by the Minimum Wage Study Commission but has taken on new currency with recent proposed legislation to reduce the minimum wage for youth during the summer.

It is not hard to understand why youth unemployment should be a matter of such pressing concerning. Unemployment rates for young people are always high and for black youth the rates are at catastrophic levels. For many young people, particularly at the end of their teen years and in their early

twenties, persistent unemployment may foreclose the opportunity to mature into productive working adulthood. Furthermore, social pathologies--crime, automobile accidents, drug use and even suicide--are linked to high unemployment.

A lower minimum wage for youth appears at first glance to be a very attractive solution. Simple economic theory suggests that new jobs would be made available to youth at what is essentially zero budget cost to the Federal government.

In order to more carefully examine this issue I will report the evidence on three key questions which must be asked about any policy: (1) will the policy accomplish its objectives? (2) is the policy well targetted? (3) what are the costs of the policy?

My conclusion is that a differential minimum wage for youth is a poor idea. While it is true that some additional youth jobs would result the numbers will not be large enough to have a significant impact upon youth unemployment. Furthermore, the jobs will not be well targetted: the majority will go to youth from well off families rather than to those who most need help. Finally, the costs of the policy are too high. In particular, many of the additional youth jobs would come at the expense of adults and this seems a very poor trade-off.

If a youth differential to the minimum wage is poor policy, how should we proceed? I will conclude my testimony by describing some of the elements of a desirable employment program for youth.

Will a Reduced Minimum Wage Alleviate Youth Unemployment?

The chief attractiveness of proposals to reduce the minimum wage for youth is that additional youth jobs will result and unemployment will fall. The mechanism is quite simple: employers will be free to hire youth at a

lower wage and therefore for any given level of output it will be economical to use more youth labor. There may also be an effect via product price: as lower wages reduce costs the prices of goods produced with minimum wage labor (for example, hamburgers) will fall, more will be consumed, and the demand for labor will shift out.

It is worth noting even at this point that the increased employment predicted by this logic does not necessarily imply reduced unemployment. As additional jobs are created more young people may choose to enter the labor force. The same phenomenon occurs during business cycles when employment growth does not bring corresponding reductions in unemployment. Indeed, even economists who envision a large employment gain forsee a smaller than proportional reduction in unemployment.

Defenders of the minimum wage often argue that the employment effect outlined above is non-existent. The reason for this skepticism is easy to discover: despite the increasing minimum wage the economy has grown and youth employment levels have risen. Even in the economic turmoil of the last decade employment of 16-19 year olds rose from an annual average of 6.1 million in 1970 to 7.7 million in 1980. Indeed, for white youth there has been no deterioration in the labor market during the entire post-war period. The percentage of white 16-19 year olds employed in 1950 was .40 while this April it was .45

In order to discover the impact of the minimum wage upon employment one must perform a statistical "what if" experiment. What, the economist and statistician ask, would youth employment have been if the minimum wage had not been increased or coverage expanded over some period of time. Engaging in such studies has been a major industry among economists. Indeed a recent definitive literature review lists over 100 articles. Because of the hypothetical nature of this research it is very dangerous to accept the findings of any one study or researcher. Each study requires certain

unprovable assumptions and complex data manipulations. The far more responsible course is to review the literature and determine whether a consensus emerges from the disparate approachs and methodologies.

The Minimum Wage Study Commission performed just this task. It reviewed virtually the entire literature, conducted several new studies, and arrived at a clear consensus on the findings. The two key findings were:

- o youth employment levels are reduced by the minimum wage
- o the magnitude of the impact is not large enough to have a significant effect upon the problem

To make these findings concrete consider the Commission's conclusions concerning the effect of a twenty-five percent youth differential in the minimum wage (not just limited to the summer). The Commission concluded that had the policy been implemented in 1980 it would have increased youth employment by between 2.5 and 5 percent. Using 1983 employment levels this translates into between 158,000 and 316,000 additional jobs. What do these estimates imply?

- o If we work with the mid-point of this range (237,000 jobs) and assume that no additional youth enter the labor market then youth unemployment in 1983 would have fallen from 22 percent to 19 percent. However, additional youth almost certaintly would have entered and unemployment more likely would have stood at about 20.5 percent.
- o If black youth had gotten their porportional share of these jobs and if there was no increase in labor force participation then their unemployment rate would have fallen from 48% percent to 46%. The expected increase in labor force participation would have left unemployment at 47%. Even if black youth received double their share of these additional jobs and there was no increase in labor force participation unemployment would still have stood at 44%.

What conclusion does one draw from figures such as these? It is apparent that a youth differential for the minimum wage can create some additional employment. The evidence suggests that it is incorrect to argue that the minimum wage is irrelevant. However, it is equally important to

be clear that there is no good evidence that high youth unemployment, particularly among minority teens, would be substantially impacted by a reduction in the minimum wage. Unemployment rates would still be regarded as at crisis levels. The minimum wage is neither the cause nor the solution to the problem.

Is a Youth Differential Well Targetted?

If a dual minimum wage were enacted would the additional jobs go to those youth most in need? The answer to this question provides evidence on how well targetted the policy is. We know, for example, that some youth employment programs can be very accurately directed to those in need: for example, programs under the Job Training Partnership Act are only available to youth whose families are below the poverty line. How would a dual minimum wage compare?

Most youth work at or near the minimum wage and this means that whatever additional jobs are created by a dual minimum would be equally distributed across all teenagers regardless of family circumstance. In 1978 70% of all teenagers working at the minimum wage were from families with incomes greater than $15,000 (or $22,905 in 1983 dollars) and 37% were from families with incomes greater than $25,000 (or $38,175 in 1983 dollars). Hence there is no reason to believe that youth from poor families would get more than their share of extra employment. This conclusion is further strenghtened by the conclusion of the Minimum Wage Study Commission that there is no evidence that minority teens would gain relatively more jobs than white teens.[1]

It therefore seems apparent that reducing the minimum wage is a shotgun

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Report of the Minimum Wage Study Commission, Vol. I, p. 40. The data on the income distribution of teenage minimum wage workers is drawn from the same source, p. 19.

policy which would not focus its impact upon those who need help. The benefits of the policy would be dissipated.

What Are the Costs of Reducing the Minimum Wage for Youth?

Thus far I have shown that the reducing the minimum wage for youth will not have a substantial impact on the youth unemployment problem and that it is a poorly targetted policy. Hence, the advocates of the policy have probably exagerated the benefits. But still, one might well ask, why not proceed albeit with reduced expectations? After all, some additional employment for youth in need will be created. Why the opposition?

Reducing the minimum wage for youth is a bad idea because it will entail costs which far outweigh the modest benefits of the policy. Two costs stand out:

- Reducing the minimum wage for youth will cost adults work;
- Reducing the minimum wage for youth will undermine the minimum wage as a tool for social policy.

Cost Number One: Job Loss for Adults

In this testimony I have indicated that a reduced minimum wage for youth may result in some additional jobs for young people. It is now important to understand that these additional jobs are not necessarily new jobs, rather many will come from the substitution of youth for adult labor.

It is quite obvious why this will happen and in fact the same logic concerning the relationship of wage levels and employment used by advocates of a reduced minimum wage for youth leads to this conclusion. If the cost of youth labor is reduced below that of adults employers will prefer, when feasible, to hire the cheaper youth.

It is important to understand that the loss of adult jobs is not just an abstact theoretical concern. To see this consider that most minimum wage workers in America are adults, not youth. That is, the majority of all people who earn the minimum wage or less are adults. Specifically, in 1980

- 30.8% of minimum wage workers were aged 16-19
- 17.4% of minimum wage workers were aged 20-24
- 45.4% of minimum wage workers were aged 25-64
- 6.4% of minimum wage workers were aged 65 and above

Furthermore, of those minimum wage workers over age 24, 70% are women.

The Minimum Wage Study Commission reached a similar conclusion. Their best estimate was that if a twenty-five percent youth differential in the minimum wage were enacted at least 100,000 adult jobs would be taken by youth.[2]

It is very important to understand that substitution of youth for adults cannot be avoided, as H.R.5721 and S.2687 seek to do, simply by prohibiting it in the legislation. Such a prohibition at best prevents the blatant case of a company laying off an adult and hiring a youth. Succesaful enforcement even in this case is highly unlikly especially since most companies affected by the legislation are non-union. However such simple and easily identifiable displacement will not be the most common practice. Rather, the substitution of youth for adults will come not through layoffs but rather by changes in the pattern of hires. As a company grows, jobs which would otherwise have gone to adults will go to youth. This pattern of substition is impossible to prove or prohibit.

If we combine the facts that most youth who work at the minimum wage come from well off families and most adults who work at the minimum are poor then we have the very real and quite disturbing probability that a

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Report of the Minimum Wage Study Commission, p. 47

differential minimum wage will lead to the displacement of poor adults by well off teenagers. This is likely to occur in sufficient numbers to create serious inequities.

The question facing proponents of a reduced minimum wage for youth is therefore whether the relatively modest benefits laid out above should be purchased at the cost of adult employment. There is no technical or strictly economic answer to this question. However, I believe that once posed in this manner most people would agree that such an action would be poor public policy.

Cost Number Two: The Erosion of the Minimum Wage

Modification of the Fair Labor Standards Act in such a substantial way as permitting dual minimum wage for youth will severely undermine the principle of the minimum wage. The legislative history of the FLSA makes clear that protection of adult workers from low wage competition from youth was an important goal of the Act. In addition, the framers of the legislation intended that there be a floor, with respect to wages, hours, and other employment conditions, below which employment practices could not fall. Narrow exceptions are permitted but none as broad as those contemplated here.

If the minimum wage per se is in jeopardy then we should ask whether it is worth saving. The answer seems to me to be yes and the basic reason is that the minimum wage provides effective redistributional benefits for the poorest of the nation's workers. First, the aggregate wage gain by those who find work at the minimum when they would otherwise work for less is larger than wages lost due to disemployment effects. Put differently, the total earnings of the working poor is higher than it would be were the minimum wage eliminated.

Second, enforcement of the minimum would also prevent exploitative conditions along other dimensions of the employment relationship. For example, the sweatshop conditions often found in garment shops employing undocumented workers are part of a total "package" one aspect of which is avoidance of the minimum wage. If the minimum wage were enforced employers would find it more difficult to maintain other sub-standard conditions. If the goal of public policy is to prohibit working conditions below a certain threshold then the minimum wage is a useful tool.

Summary of Arguments Concerning the Dual Minimum Wage

The material I have presented is structured around three key facts and the conclusion which I draw from these. The facts are

1. A dual minimum wage would create additional jobs for youth but not enough to reduce unemployment to anywhere near acceptable levels.
2. The benefits of the dual minimum wage would be dispersed among many young people who come from families with high incomes.
3. The modest employment gains for youth would come at considerable cost. First, a substantial number of adults would lose opportunities for employment. Second, the minimum wage per se would be undermined and sub-standard employment conditions would spread.

The conclusion I draw from these findings is that a dual minimum wage would be a poor policy. The same arguments apply for a dual minimum limited to the summer months. It is true that the damage would be reduced by limiting the exception to the summer but by the same token the benefits would also be reduced. In fact, the summer labor market for youth works very well. In April of 1983 there were 5.7 million teens were employed yet by July of that year an additional 2.4 million had found employment. The unemployment rate was actually lower in July than in April. Improving the operation of the summer youth labor market, while perhaps helpful, is hardly the most important priority with respect to youth unemployment.

The crisis of youth employment cannot be solved by reducing the minimum wage. Furthermore, the crisis is much more serious than is suggested by emphasizing the summer months. In concluding this testimony I will offer some comments concerning positive approaches for addressing the youth employment problem.

Strategies for Addressing the Youth Employment Problem

Proposals to lower the minimum wage for youth are not based on a careful understanding of what lies behind the perceived crisis of youth employment. A more thoughtful analysis will yield more useful strategies.

It is a mistake to think of youth employment difficulties as one vast undifferentiated problem. Rather, there are several different youth employment issues and each requires a different approach. Furthermore, not all are equally serious.

For most youth, unemployment is a passing phase associated with entry into the labor market and early experimentation. As these young people grow older they will settle down into stable career patterns.[3] The simple fact that youth unemployment declines sharply with age is evidence of this pattern. At the most these youth--and they represent the majority of the unemployed--require some part-time work to get them through the maturation phase and to supplement family income. Many employment and training programs, particularly the summer jobs program, meet these needs.

The real youth employment crisis is concentrated among high school drop-outs and minorities. The drop-out issue is serious because there is strong and convincing evidence that those who leave school early will face serious barriers in finding good work. There is a clear relationship between

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These arguments are developed more fully in Paul Osterman, Getting Started: the Youth Labor Market, (Cambridge, M.I.T. Press), 1980

drop-out status and economic well being. For example, in 1980 37% of those with an eighth grade education or less and 24% with less than a twelfth grade education were economically disadvantaged compared to 12% with a high school degree, 9% with some college, and 5% with a college degree or better. Drop-out rates are very high in central city areas and many observers believe they are rising. Programs to prevent dropping out and to provide remedial education to those who do leave school represent a real attempt to come to grips with the true issue.

The minority employment problem is even more serious because the labor market for them has virtually collapsed. As noted above, the unemployment rate for black youth is a staggering 44%. Furthermore, while the percentage of white youth able to find work has remained steady in the postwar period the percentage of black youth who are employed has plummeted. Especially troublesome has been the record in the 1970s. While in 1970 28% of black youth held jobs in by this April the figure stood at 18%. By contrast, the respective figures for white youth were 45% both years.

Understanding why minority employment patterns have been so dismal is beyond the scope of this testimony. However, among the factors which need to be seriously considered are poor educational systems in central cities, the loss of central city employment to the suburbs, rising competition from the large numbers of adult women and undocumented workers who have entered the labor market, and persistent racial discrimination.

In order to provide a sense of the magnitude of the youth employment problem we face consider the following dismal statistics:

- A conservative estimate is that each year 700,000 youth leave high school without graduating. By age 18 and 19 black teens have a drop-out rate nearly 60% higher than that of whites and the rate for hispanics is even higher;
- The National Assessment of Educational Progress estimates that while 13 percent of all 17 year olds are functionally illiterate, that percentage increases to 44 percent for black youth and 56 percent for hispanics;

- In 1983 among 16-19 year old white youth the number who were neither working, attending school, or keeping house (and hence were economically inactive) was 2.3 million or 18% of the cohort. For blacks the comparable figures are 674 thousand and 30 percent of the cohort. Among 20-24 year olds the comparable figures are 2.3 million and 13 percent for whites and 817 thousand and 30 percent for blacks.

There have been many employment and training programs aimed at drop-outs and at minorities and almost as many evaluations. Many of the evaluations were carefully done and we have in hand some good evidence concerning what works. Several conclusions stand out:

- It is possible for program operators to efficiently create short term training or work experience programs for young people. These are often in job sites which provide important and useful community services, for example day care, elder care, or tutoring. These programs succeed in providing transitional help for youth in the summer or during the school year as as such have a role to play in the mix of manpower services. However, the evidence suggests that they have no long term impact on education levels or employment prospects. Hence they are not likely to help those youth who face serious employment barriers. Probably too large a fraction of training resources have been devoted to programs of this sort.

- Although short term training has little long lasting payoff those programs which make substantial investments in skills training and in remedial education seem to significantly improve employment prospects. Therefor, to assist youth most in need major interventions are necessary but if the committment exists then good results can be expected. Practically speaking this means programs which last at least a year and which combine training, education, and supportive services.

- Programs must emphasize basic educational skills as well as job specific training. Flexible non-traditional curricula outside the framework of regular schools seem to work best for drop-outs.

- The evidence on the ability of employment and training to work with the public schools in reducing drop-out rates is mixed. Those models which show success imply that strong incentives for institutional cooperation combined with credible promises of jobs after graduation are most likely to succeed.

What this brief review suggests is that an effective youth employment strategy will mix several different programs approachs. For some youth it

sufficies to provide temporary part time work. Programs of this sort have a role to play but should probably claim a smaller share of resources. For youth who have left school and are in trouble long term programs which combine skill training and remedial education hold out good promise. Finally, more thought needs to be given to how to work with the public schools to reduce drop-out rates.

The employment and training programs implied above--long term training with a strong basic educational component--are more expensive per youth than the typical programs which have historically dominated the youth employment scene. However, it is important to keep in mind that most unemployed youth do not require such efforts. The key to successfully addressing youth employment problems lies in identifying the relatively small group of youth who require substantial interventions and then providing them with the quality of programs which we would insist our children receive if they needed help. Such an effort would constitute a serious attempt to address a problem which threatens not only the youth themselves but also social stability.

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Representative LUNGREN. Thank you very much, Mr. Osterman.

Now we will hear from Mr. Walter Williams, author of the "State Against Blacks," and a member of the Department of Economics at George Mason University.

You may proceed as you wish.

STATEMENT OF WALTER E. WILLIAMS, PROFESSOR OF ECONOMICS, GEORGE MASON UNIVERSITY

Mr. WILLIAMS. Thank you.

You have my prepared statement and I am not going to rehash the things that it says. I would like to spend more of my time perhaps responding to your questions after I make just a few remarks.

The first thing I think that we are all compelled to observe is that back in 1948, before there was any Government Manpower Training Program, teenage unemployment in general was much lower than it is today. In fact for some age groups among blacks, most notably 16-year-olds, their unemployment rate was lower than that of their white counterparts; namely, 9.4 for black teenagers 16 years old and 10.2 for whites.

We have seen that as the number and size of Government programs have increased the climbing rate of unemployment continues among teenagers in general and black teenagers in particular. And I am amazed at anybody who would recommend another Government program to take care of it, because who can stand up in his right mind and say that after years and billions of dollars of CETA money spent that it has been a success and the unemployment among teenagers, particularly black teenagers, is no longer a problem?

The problem of unemployment among teenagers is quite critical. I don't care what race of teenagers you are talking about, because all teenagers need to get out and have the opportunity to learn how to find jobs, make labor market mistakes at a time in their lives when labor market mistakes aren't as costly as they would be at other times in their life when they have dependents counting on them for a continuous source of income.

But early work experiences are even more critical for black youths to the extent that the Government schools in our cities deliver grossly fraudulent education to black teenagers, which suggests that if black teenagers don't acquire skills in the job market that will make them more valuable employees in the future, they will definitely not acquire it in the school, because the school is not going to teach them anything that will make them more valuable employees in the future.

So anything such as the minimum wage law which eliminates early work experiences for black teenagers especially consigns them to a life on the dole. And I might add that this hard core unemployment among many blacks is a new phenomenon in the history of blacks; that is, you could not go through any literature starting with the emancipation up until the 1960's and 1970's and find hard core unemployment; namely, people having reached the age of 25 or 30 without having job experience.

I think that it would be quite wrong and quite misleading to say that the minimum wage law is the complete villain of the piece. The minimum wage law has indeed destroyed certain kinds of jobs; namely, ushers. I remember as a kid when I was growing up back in the late 1940's or early 1950's even neighborhood theaters had two or three ushers to show you to your seat, and today, if you go to a theater, even downtown, you might find one if you're lucky, and the reason why we don't have ushers in theaters today is not because Americans wish to stumble down the aisles in the dark to find their seats; the reason is that the minimum wage law has destroyed that kind of job.

I just might say in passing that there are other villains. I recall them from my youth in the slums of north Philadelphia. For example, I delivered mail for the U.S. Post Office as a teenager during the Christmas holiday. Well, the American postal union is not interested in seeing kids do that kind of stuff. I swept out supermarkets after school and on Saturdays. The Retail Clerks Union, using the power that Congress has given it, can confront the supermarket owner with the proposition: Either you hire the members of the Retail Clerks Union or you get no labor at all. It just happens that a 13-, 14-, or 15-year-old kid cannot become a member of the Retail Clerks Union.

Getting back to the minimum wage law, as my colleague pointed out here, one of the things about the minimum wage law he noticed was that high income kids are being employed at minimum wage jobs. Well, of course. Any economist who has learned basic economics can predict that the minimum wage law would discriminate against low skilled people. So when you raise the minimum wage law employers also raise their credentials for employment, and so they will tend to weed out the people who are worth in terms of their hourly output less than the minimum wage law. It is not an evil spirit that makes the employer raise his credential standards; I believe it's a predictable theoretical response.

I think that if you want to get a consensus on a theory in any science—I don't care whether it's physics, mathematics, or economics—you need to consult the introductory text in the particular field. And it turns out that if you consult the introductory text and see what they say about the minimum wage law, if they have a section on the minimum wage law, 92 percent of introductory texts will say that the minimum wage law creates unemployment for lower skilled individuals in the labor market.

As a matter of fact, Congress in 1977 as a part of the 1977 amendments to the minimum wage law commissioned a minimum wage study, that commission which came out with this report in 1981 which was referred to earlier.

It is very interesting, when you go through the study, in the studies that were done by the contracted economists; virtually all of them conclude that the minimum wage law has some kind of unemployment or disemployment effect. They disagree on the magnitude, which in the jargon of our language is an elasticity question. But if you read through volume I of that commission study, which was written by the political appointees, you would not have believed that any economist could have been present, because you will note the sharp contrast of the things that were said in volume I compared to the other volumes

of the studies, recognizing the political motivation behind the minimum wage law.

I think my colleague said that the minimum wage law is a good idea. Well, without impugning his motives or the motives of anybody else who considers the minimum wage law a good idea, you should keep in mind that racist unions in South Africa think that the minimum wage law—they call it rate for a job law over there—is a good idea for blacks. As a matter of fact, racist unions in South Africa are the major supporters of minimum wage laws and equal pay for equal work laws for blacks. And the reason why they are for these laws, they say, is that government is no longer protecting the white worker. I am virtually quoting a white president of a construction union. He says that it is becoming more and more rare to see white men on residential construction jobs. People are cheating on the apartheid laws and job reservation laws. The reason why they are cheating is because managers or employers are interested in profit, and it turned out that blacks were getting lower wages than whites, and so they had a lot of incentive to hire blacks instead of whites. The labor union fellow said that if we can get such a law passed it will protect us from competition with low-skilled black labor.

While Americans who lobby for increases in minimum wage law, and increases in the extent of coverage may have different stated intentions behind their support, and they are more notable, I might add, than those in South Africa, we have to keep in mind that the effects of a law do not depend on its intentions. In fact the effects of the price control laws in South Africa are identical to our price control laws in the United States: Unemployment for the least skilled worker.

You will hear a lot of things said about the substitution effect. Well, the substitution effect, that is, first, wishing to employ kids more than adults, how much of it is an empirical question? There is no economist who can sit down and tell you exactly how much it is. Considerable evidence suggests that the overall net effect would be an increase in total employment. But let's just assume or give the opponents of the youth minimum the argument that there would be a substitution effect and maybe employers may hire more kids and fewer adults. Let's suppose that is the case. Then you must ask yourselves what is the moral basis for Congress using its awesome coercive powers to protect the job of one American at the expense of another American's job. This does not seem to be in keeping with the principles of the Constitution, using the coercive powers of Congress to protect one person's job at the expense of another person's job. And we see that this protection is indeed coming out as we debate the minimum wage law. That is, unions and other supporters are saying the law would put older workers at risk. Well, it may do that and it may not, but at least they are showing their colors of wishing to protect the older worker.

From a political standpoint it makes sense for you as Congressmen to protect the older worker. I doubt whether it makes good moral sense—after all, none of you owes your seat to the teenage vote. However, many of you owe your seats to the union vote. It turns out in the political arena that if you want to dump on somebody you dump on people without political power.

I am finished, sir.

[The prepared statement of Mr. Williams follows:]

Prepared Statement of Walter E. Williams

ECONOMIC OPPORTUNITIES FOR YOUTHS AND MINORITIES

Persistently high rates of unemployment in several segments of the United States labor force is one of the most difficult unresolved economic problems of the post World War II era. The segments of the labor force that produce the most seemingly intractable problem are its youth and minority. Youths, particularly minority youths, face high rates of unemployment even when there are relatively prosperous times and when the adult segment of the labor experiences a relatively low rate of unemployment. This evidence shows that governmental efforts to reduce unemployment through vigorous monetary and fiscal policy produces disappointing results for the youth segment of the labor force. Furthermore, there is not much hope that future monetary and fiscal policy will substantially change the situation over what it has been for well over a decade. What is needed are institutional changes which will free markets, and hence employment opportunities, for the relatively disadvantaged worker.

High youth unemployment would not be such a critical problem if youth employment was considered only as a means to supplement family income or earn spending change. The absence or presence of early work experiences have effects which may spell the difference between a successful or unsuccessful future work career. Early work experiences, even in the most menial of tasks, aid the individual in the acquisition of skills and attitudes that will make him a more valuable employee in the future.[1] Early work experiences (1) teach individuals effective job research techniques; (2) teach effective work habits

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[1] Many argue that "deadend" jobs deny the individual career-related skills. However, many of the skills absent among many of our youth and hard-core unemployed can be obtained in any job. Furthermore to assign certain jobs as deadend is unfortunate because it creates false and unrealistic labor market expectations among our youth.

such as promptness, respect for superiors and other work habits; (3) provides self respect and confidence that comes from being financially independent or semi-independent; (4) provide the valuable opportunity to make mistakes at a time when mistakes are not likely to be as costly as they would be when the worker has dependents counting on him for a continuous source of income. The absence of early work experiences not only denies youths the acquisition of these skills, but may also act as disincentives to the continuation of their formal training. Moreover, the absence of job opportunities is likely to contribute to many kinds of anti-social behavior.

High youth unemployment has effects which are undesirable from both an individual and social point of view. Quite naturally, at least two questions arise: (1) Why are youths, particularly minority youths, so disproportionately represented among the unemployed and (2) what should government policy be with respect to the matter? The first question is one of cause and effect. Economic theory can readily approach this kind of question. On the other hand, what government should do about teenage unemployment opens up the potential for unending debate. This is because no theory, including economic theory, can answer questions that are essentially normative. That is, while economic theory can say who bears the burden of what policy, it cannot in any moral sense justify a policy or its distribution of burden and benefits. Therefore, what follows is the analysis of the factors that cause the high rate of youth and minority unemployment.

Minimum Wage Laws

The Congress of the United States has the power to legislate increases in the minimum wage at which a labor transaction can occur. However, the Congress, and for that matter no one else, can legislate an increase in worker productivity. Moreover, though the Congress can legislate the mini-

mum wage at which a labor transaction can be made, it has not chosen to legislate that the transaction actually be made. To the extent that the minimum wage law raises the pay level to that which may exceed some workers' productivity, employers will make adjustments in their use of labor. Such an adjustment will produce gains for some workers at the expense of other workers. Those workers who retain their jobs and receive a higher wage clearly gain. The most adverse unemployment effects fall upon those workers who are most disadvantaged in terms of marketable skills, who lose their jobs and income. This effect is more clearly seen if we put ourselves in the place of an employer and ask: If a wage of $3.35 per hour must be paid no matter who is hired, who does it pay the firm to hire? Clearly the answer in terms of economic efficiency is to hire the worker whose productivity is the closest to $3.35 per hour.[2] If such workers are available, it clearly does not pay the firm to hire those whose output is, say, $2.00 per hour. Even if the employer were willing to train such a worker, the fact that the worker must be paid more than his output is worth, plus training costs incurred, makes on-the-job training an unattractive proposition.

The impact of legislated minimum wages can be brought into sharper focus if we ask the distributional question: Who bears the burden of legislated minima? As I said earlier, workers who are most disadvantaged by minimum wage legislation are those that are the most marginal. These are workers who employers perceive as being less productive or more costly to hire in some sense than other workers. In the U. S. labor force there are at least two segments that share the marginal-worker characteristic to a greater extent than do other segments of the labor force. The first group consists of

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[2]Actually the compensation that employers have to pay is higher because of federally-mandated fringes such as Social Security and other payroll taxes.

youths in general. They are relatively low skilled because of their age, immaturity and lack of experience. The second group are some racial minorities, particularly the youth, who not only share the handicaps of youths in general but are further burdened by unusually poor schooling, racial discrimination and other socio-economic factors leading to lower skill levels. While low skills can explain low wages, low skills cannot explain unemployment absent some kind of market interference. It is no accident that teenagers, particularly minority teenagers, are disproportionately represented among unemployment statistics. Numerous studies have evaluated the impact of legislated minimum wages on unemployment. The conclusions of some representative studies are cited here:

David E. Kaun[3] using census data found that statutory wage minimums caused plant closures and the replacement of labor by other productive inputs. Also the most adverse effects of statutory minimums were concentrated among minorities, teenagers and females.

Yale Brozen[4] in two studies discusses the impact of the minimum wage law. First he shows that the rate of teenage unemployment relative to that of the general population rose and the ratio of nonwhite to white teeenage unemployment rose following increases in the federal statutory minimum. In another study he concluded that workers adversely affected by the statutory minimum crowded into uncovered areas, such as domestic housework, increasing employment and depressing wages in the uncovered areas.

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[3] David E. Kaun, "Minimum Wages, Factor Substitution, and the Marginal Producer," Quarterly Journal of Economics (August, 1965), pp. 478-486.

[4] Yale Brozen, "The Effect of Statutory Minimum Wages on Teenage Unemployment," Journal of Law and Economics (April, 1969), pp. 109-122; Yale Brozen, "Minimum Wage Rates and Household Workers," Journal of Law and Economics (October, 1962), pp. 103-109.

Kosters and Welch[5] conclude that the minimum wage law has had the effect of reducing job opportunities for teenagers during periods of normal employment growth and making their jobs less secure in short-term changes in the business cycle. They go on to conclude that a disproportionate share of the cyclical vulnerability is borne by nonwhite teenagers and the primary beneficiaries of shifts in employment patterns are white adult males.

Edward Gramlich[6] argues that a 25 percent increase in the minimum wage law lowers the employment of low wage earners by 10 to 15 percent. Furthermore, Gramlich finds a defect of other studies causing them to understate the true effects of the minimum wage law. Gramlich presents evidence that shows that a rise in the minimum causes a shift toward more part-time employment away from full-time employment. This loss in hours worked does not show up in many studies because they do not distinguish between an individual employed full-time and one employed part-time. Thus, the reduction in hours worked may be greater than the fall in employment alone suggests.

Jacob Mincer[7] reports the adverse effects of the minimum wage on youths and minorities:

> The net minimum wage effects on labor force participation appear to be negative for most of the groups. The largest negative effects are observed for nonwhite teenagers, followed by nonwhite males (20-24), white males (20-24), white teenagers, and nonwhite males (25-64).
>
> The net employment effects are negative with the exception of nonwhite females (20+), for whom the positive coefficient is statistically insignificant. The largest

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[5] Marvin Kosters and Finis Welch, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment," American Economic Review (June, 1972), pp. 323-332.

[6] Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment and Family Income," Brookings Papers on Economic Activity (Washington, D. C.: The Brookings Institute, 1976), pp. 409-451.

[7] Jacob Mincer, "Unemployment Effects of Minimum Wages," Journal of Political Economy (August, 1976), pp. 87-105.

disemployment effects are observed for nonwhite teenagers, followed by nonwhite males (20-24), white teenagers, and white males (20-24).

The weight of academic research by economists is that unemployment for some population groups is directly related to statutory wage minima.[8]

Minimum Wage and Black Youth

So far my discussion has focused mainly on youth unemployment in general. Now I want to make some comparisons between black youth unemployment and white youth unemployment.

While most people are knowledgeable of the current deteriorated market position of black youngsters relative to white youngsters, not many are aware of black/white youth employment statistics for earlier periods in our history. The most striking feature is that in 1948 black youth unemployment was roughly the same as white youth unemployment. Only among black youths (20-24) was the unemployment rate significantly higher. However, for black youths age 16-17 their unemployment rate was less than that of white youth—9.4 percent unemployment compared to 10.2 percent of white youths unemployed. Now, and for the last decade, black youth age 16-17 have suffered an unemployment rate considerably more than twice that of white youth. In fact for every age group among youths black youth unemployment is more than twice that of white youths. These statistics, however, understate the true nature of the problem by a wide margin. The reason is that they are national statistics and

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[8]Other studies showing these effects are: William G. Bowen and T. Aldrich Finegan, The Economics of Labor Force Participation (New Jersey: Princeton University Press, 1969); Thomas G. Moore, "The Effect of Minimum Wages on Teenage Unemployment Rates," Journal of Political Economy (July/August, 1971), pp. 897-902; Terrance Kelly, "Two Policy Questions Regarding the Minimum Wage," The Urban Institute, February, 1976, mimeo; Robert Golfarb, "The Policy Content of Quantitative Minimum Wage Research," Industrial Relations Research Association Proceedings, December, 1974, pp. 261-268. Many other references can be found in the bibliographies and footnotes of these studies.

do not reflect the fact that much youth unemployment is concentrated in our major metropolitan areas. Black youth unemployment in some cities, such as Detroit, Newark and New York, has been estimated to be as high as 60 percent!

Another part of this dismal picture is the labor force participation rate among black youth compared to white youth. In earlier periods, black labor force participation rates for all age groups equalled or exceeded that of whites. In fact, historically, black labor force participation has always exceeded that of whites. Until the mid-sixties blacks, as a group including black youth, had a labor force participation rate equal to or greater than whites.[9] For black youths age 16-17 their labor force participation rate is now slightly over one-half that of white youths. Black youths (18-19) the labor force participation rate is now three-quarters that of white youths (18-19). Black youths (20-24) now have a labor force participation rate 90 percent of white youths (20-24). Not only are the labor force participation rates of black youth less than white youths but they are falling.

Faced with these facts one naturally asks why have labor market opportunities deteriorated so precipitously for black youths relative to white youths? Can racial discrimination explain this kind of reversal? Probably not. It would be very difficult for anyone to sustain an argument which held that business and society have become more racially discriminatory than they were in the past. The answer lies elsewhere as has already been suggested--the minimum wage law.

Earlier I said that economic theory predicts that when a wage is legislated that exceeds worker productivity firms will have inducement to make adjustments in its use of labor. Though not intended this adjustment which

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[9] In 1910, 71 percent of blacks over 9 years of age were employed compared to 51 percent for whites. See U. S. Bureau of Census, Negro Population, 1790-1915 (Washington, D. C.: U. S. Printing Office, 1918), p. 166.

firms can rationally be expected to make has racial effects. That is, one type of adjustment is to hire not only fewer youths, relative to other inputs, but seek among those youths hired the ones with higher qualifications. As it turns out for a host of socioeconomic reasons with which we are all familiar white youths, more often than black youths, have better educational backgrounds. Therefore, as reflected in the unemployment statistics, increases in the minimum wage law can be expected to impose a greater unemployment burden on black youths than on white youths. Observations such as those that I have cited are those which prompted Milton Friedman, our economist Nobel prize winner, to say that the minimum wage law is the most anti-black law on the books.

Conclusions

My testimony at these hearings could include many other federal regulations and laws that make it almost impossible for present disadvantaged minorities to enter the mainstream of American society as have earlier disadvantaged minorities. The point that I wish to make in the strongest fashion possible is that many laws, though well-intentioned, spell disaster for a large segment of black, Hispanic, and other disadvantaged minority groups. The most tragic element of this is that people may come to view the difficulty that these groups have in fully entering the mainstream of American society (in spite of the billions of dollars spent, in spite of civil rights legislation, in spite of thousands of civil rights litigation cases) as group incompetence, and as such the most racist elements of society will have their prophecies realized. Hardly anyone acknowledges that many, if not most, of the problems encountered are neither due to group nor individual incompetence but due to the excesses of government influenced by politically powerful interest groups. Many of these groups in the pursuit of their objectives contribute to the enactment of laws which spell disaster for disadvantaged Americans.

Representative LUNGREN. Congressman Scheuer.

Representative SCHEUER. I was impressed by your testimony and interested in your testimony very much. But I must say I was turned off by your last sentence or two.

We don't function down here in terms of what we think the immediate reaction is going to be on our electorate. Congressman Lungren and I disagree on a lot of things. I thought he performed magnificently last week on the immigration bill. He is a very talented, productive, and enlightened Member of Congress, representing a different point of view than I represent. But I can assure you that neither he nor I is motivated in our approach to this problem by how it is going to fly with our constituency. We care about this country, and that is why we are here. I assure you that Congressman Lungren could make out financially and otherwise lead a much more quiet, relaxed life doing other things, but he is here because he believes in his country, and he is not pandering to any adult vote, and I assure you, neither am I.

I think if we could just understand that we are the legislators and you are our honored consultants and advisers, and if you stick to the merits and leave us to worry about the politics, then we'll all be a helluva lot better off and we'll arrive at some constructive public policy decisions sooner than if you start worrying about politics, because that is going to take you down some very negative paths.

Mr. WILLIAMS. Sir, I am stating a fact. That is, no Congressman owes his seat to the teenage vote. I am stating that this problem with the minimum wage law is not economic at all; it is a political problem.

Representative SCHEUER. Well, let me give you the politics of one Congressman. I don't speak for anybody else, but I speak for myself.

You're right. Teenagers don't vote, adults do vote. But as far as I am concerned, there is no more bitter condition challenging our country, no more divisive condition, no more cancerous condition, than a growing underclass in our country of kids who can't read, who can't write, who can't count, who are functionally illiterate, who are predominantly school dropouts, as you have said, who will not likely in their lifetime have what either of you would call a satisfactory job. They will flit from one menial job to another and never have a job. They are bound to react negatively; they are bound to lash out; they are bound to be alienated; and I for one am deeply concerned about that. And I think we have got to do something about that as a country.

Anytime you poke that balloon something gives somewhere. If the cost of doing something useful and constructive and productive about structural employment among teenagers—predominantly minority, but not entirely—were that there would be some cost in adult employment, I would say as a society we had better face up to that and we had better accept that.

At least as far as adults are concerned we have programs in place, we have structures in place, they are easily identifiable, and we are connected with them. And we can cope with that in rational humanitarian ways. We do not have any structures in place for teenage unemployment, the structural unemployment of largely functionally illiterate teenagers who are to a considerable degree minority. We don't have structures, we don't have programs to deal with that.

We have been talking about this condition ever since I've been around here, which is 20 years. Our Congress has failed. We have got to get these kids on a ladder, even if it means extending the ladder down by means of adjusting the minimum wage. That would be one way of doing it; there may be other better ways of doing it. But I am perfectly willing for society at large to pay some costs to get these kids in the mainstream, to get them on that ladder, to get them some kind of remedial education and job training to improve their literacy skills, to improve their job skills, and to get them into an employment modality that is going to give them independence and dignity and hope and confidence in our society, and above all, self-esteem for themselves. I am willing to pay a price and if that means some harm to adult workers, then I say as taxpayers and as Congressmen we have to face up to that, provide the program, and provide the aid to ameliorate that harm.

Mr. OSTERMAN. Congressman, could I speak to that point?

Representative SCHEUER. Yes. But I don't know what the programs are, and the reason I'm here this morning is to find out what they are. These are our last 3 days before we go on recess. We are all busy as heck, and the fact that we are here listening to you indicates the priority, the importance that we place on finding answers to this terrifically perplexing problem.

Mr. OSTERMAN. I think it would help to speak about other programs, and I would like to do that in a few minutes. Let me just indicate a few remarks to your point about adults having to pay the price.

I think a lot of that goes to the question of who those adults are. If it was you or me or people like us who are economically secure, who have other resources, who have other job contacts, who would be asked to pay that price, I think that that is one thing. In fact the adults who would pay the price are adults who work at the minimum wage.

Representative SCHEUER. Let me interrupt you, and then please continue. I don't believe in the play of free market forces to the point of saying those individual adults who lose their jobs have to pay that price. I say that society has to pay that price. I say we as legislators and we as taxpayers have to come up with answers, and if it costs some money and if it costs some resources to cope with that problem, then let's do it, let's face up to that. But I think it is going to be a heck of a lot easier for our society to face up to that problem, the problem of some additional adult workers who are hurt, who are unemployed; it is going to be much easier for us to cope with that in a decent civilized humanitarian way than it is for us to find the answer to this problem of structural unemployment among predominantly minority teenage males that has been baffling us for decades.

If we can find an answer to teenage unemployment, and get these teenagers on the ladder, and provide them with literacy skills and job skills and some alternative to the school system that seems to have failed them, without assigning any guilt of any kind anywhere, then let's by all means get at it.

Then you tell Congressman Lungren and myself, all right, you want to do this program. Among the benefits are the reduction in teenage unemployment, but among the costs are the cost to the adult population that will be displaced. Our society has to face up to those costs, and I think Congressman Lungren and I would be happy to do that.

Representative LUNGREN. Mr. Osterman, let me just go back to a couple of things from the beginning before we get into alternatives, and I would like you to comment on it and Mr. Williams as well.

Mr. Williams has pointed out that there has been a tremendous increase in the percentage of unemployment of black youth during the 1970's, and you indicated there were a number of reasons for it. One of those, you said, is discrimination. I would just say it seems to run counter to what we have experienced. I doubt you can argue that there was more discrimination in the 1970's than there was in the 1940's, 1950's, and 1960's. Would you grant me that?

Mr. OSTERMAN. Yes, I would grant you that.

Representative LUNGREN. What other major reasons would you cite for what I consider to be a rather astounding percentage of black teenage unemployment in the United States?

Mr. OSTERMAN. Let me speak briefly to the issue of discrimination and then give you other reasons. There is not more discrimination, and in fact there is probably, in terms of people's attitudes, less discrimination, and at least until recently there has been increasingly effective enforcement of affirmative action. The problem has been that in the late 1960's and 1970's there was an enormous increase in the number of competing groups in the labor market. That is to say, groups who were competing with teenagers, particularly minority teenagers, for jobs. Adult women entered the labor force in very large numbers, and many of them work in the same kind of low wage casual employment as do teenagers. And, as you know, undocumented workers entered the labor market in very large numbers.

Regardless of whether there is more discrimination or less discrimination in terms of people's attitudes, if an employer for any reason prefers a suburban woman or an undocumented worker, suburban woman because that person probably will be less threatening for a number of reasons, an undocumented worker because they are willing to work harder, longer, under worse conditions, then in the presence of more and more of these alternative sources any aversion to teenagers, particularly minority teenagers, will lead to more unemployment. So I think that is one significant issue.

I think another reason why the labor market collapsed is because there is a growing divergence between the kind of jobs that are available in inner cities and what the educational system is producing. Increasingly inner-city jobs are service jobs, white color jobs; decreasingly they are manufacturing jobs, casual construction jobs; and there is a mismatch, a mismatch between the skills required by the jobs and the skills that are being produced by the kids and by the school system.

Representative LUNGREN. Let me ask you a question on that. Most statistics seem to show that the net increase in jobs in this country over the last 15 years, 12 years anyway, has taken place not in the big companies of America, but the medium and small firms. It seems to me the minimum wage is more likely to have an effect on small firms than it is on the larger firms. Oftentimes in the past I've heard people say "I'd love to hire somebody. They can sweep out the store and they can do this. I really don't need them, but I would do it. But if you are going to require me to pay x amount of dollars, frankly, it's not worth it to me." Wouldn't the impact of the minimum wage tend to be greater

with those employers than with the larger employers and, because we have seen the job market shift so that the smaller employers are the ones that generally create the jobs, have a greater effect now than it would have had 25 years ago?

Mr. OSTERMAN. I think there is a lot to that.

Let me make a couple of remarks. As you know, there is an exemption in the minimum wage for companies whose gross receipts are less than $360,000 a year. So the very smallest companies are not affected by this.

Second, I think it is important—and I would like to say a few words about the historical picture in response to something Mr. Williams said—to put in context exactly what happened.

In fact the labor market for black teenagers has always been abysmal, and it was absymal even in 1948 and 1950, prior to the imposition of the minimum wage. What we are observing is something that is not quite as new as those kinds of data make it appear. The reason being that in the 1950's the vast majority of black teenagers worked in the South in agricultural occupations. In fact in 1950, 71 percent of all 16- to 19-year-old black teenagers worked in the South. In that situation there was not the kind of divergence between unemployment rates that you observed today, but in nonrural areas there was still a very wide differential.

Take the Northeast of the United States. In 1950 in the Northeast of the United States the black employment-to-population ratio, the percentage of all blacks employed, was 23 percent; for whites it was 33 percent. In the North Central, for blacks it was 28 percent; for whites it was 46 percent. Similar in the West.

The point is that outside the South even 30 years ago there was a big differential between blacks and whites. So the first point I want to make is what we are observing isn't all that new. There has been outside the South a big problem for many, many years.

Second, the real collapse was in the 1970's.

As far as the small business issue goes, small businesses create a vast number of jobs; a vast number of jobs also disappear from small businesses. In other words, there is a lot of instability and turnover and so forth. The question of the role of small businesses in net job creation is really very clouded and is very controversial. Yes, the minimum wage would have a bigger effect on them, the ones that are larger than the exemption. There would be an employment effect. I am not denying that. But I think that those same small businesses would also be inclined to employ a poor adult now, and that is where the substitution issue arises.

Representative LUNGREN. Mr. Williams, would you respond to the question about the factors associated with the decline of labor force participation among black youth, particularly in the 1970's?

Mr. WILLIAMS. Well, I think there is one clear thing. As I said earlier, the minimum wage law discriminates against the employment of lower skilled people, and surely firms, if they have to pay a higher wage—we have to keep in mind that $3.35 is not the minimum hourly compensation an employer can get by with, because he has to meet some mandated fringes, such as social security and other kinds of payroll

taxes, and some economists estimate that the minimum hourly compensation an employer makes is fairly close to $4 or thereabout. But when you raise the wage like that, surely housewives are going to enter into the market and employers are going to seek higher skilled workers, whether they are on a part-time basis or a full-time basis. The observation that Professor Osterman makes are things that are predictable from your standard economics 1 class. Surely raising the minimum wage law will also give incentive for the firms to hire illegal aliens instead of teenagers.

So I am not surprised at all. It will also give firms incentives to engage in racial discrimination. That is, if you have to pay a person $3 and hour or $2 an hour, no matter who they hire, well, then the cost of discriminating against one employee in favor of another employee becomes zero. That is, Congress makes it economically profitable for firms to discriminate in employment because it just does not cost them anything to discriminate racially, or it makes it cheaper for them to do it.

So the outcomes that Professor Osterman is observing are just the ones that are predictable.

I'd be a little bit worried about switching from unemployment statistics to employment-to-population statistics. The unemployment statistics that I am aware of during the late 1940's show that the unemployment among black teenagers was nowhere near what it is today, and among teenagers in general it was nowhere near what it is today.

Representative LUNGREN. In fact the employment-to-population ratio for teenagers suggests that in about 1948–50 it hit the high peak with respect to nonwhite teenagers. Mr. Osterman made the point that it is true in some measure because of the tremendous percentage of blacks then living in the South and that it was not reflective nationwide.

Mr. Osterman, you have indicated the problems of substitution and the problems you see in other ways with a less-than-minmum wage allowed for young people. But as you are aware, under the Fair Labor Standards Act, at the present time full-time students under certain restrictive conditions can be paid less than the minimum wage. The statistics we got from the Labor Department indicate that approximately 250,000 full-time students were employed in this type of job, retail establishments and so forth. Do you feel that this provision of the minimum wage which presently allows an exception or a less-than-minimum wage to be paid to these individuals should be repealed because it jeopardizes the minimum wage as an institution and promotes sweatshops or because of substitution with adults?

Mr. OSTERMAN. I think that that is a question about which I have mixed feelings. I don't think that that kind of an exemption permits the kind of sweatshop operation that we have talked about, because the conditions under which companies can do that are regulated. That is to say, a company has to send in a postcard or do something along those lines to apply for a certificate. You can only employ people on a part-time basis during the school year; you can only employ a certain number of people. So intrinsically that situation is a regulated situation, albeit a lower minimum wage. It is not across the board, and so it is unlikely to have those particular kinds of dangers.

Another defense for it is that it provides an incentive for people to stay in school. That exemption is only available to students, and therefore, to the extent that it does create some additional employment, it reduces dropout rates considerably, or potentially reduces dropout rates.

So that is a second justification for that particular exemption.

On that very point, I do want to point out that while a number of people have had some very harsh things to say about the public school system, and I think that much of that is justified, nonetheless it's true that there is an enormous correlation between whether or not an individual graduates from high school and what that person's economic status is. To give you some rough numbers, 37 percent of those with an eighth grade education or less and 24 percent of those with less than a high school degree are economically disadvantaged, fall into the poverty line, compared with 12 percent who have a high school degree and 9 percent who have just some college. That is to say, there is a real payoff for people staying in school.

The exemption we are talking about would help people stay in school. In fact, paradoxically, a lower minimum wage, a youth differential, would probably increase dropout rates. There is clear evidence—I know this sounds surprising—that as the number of jobs that are available to youths rise in the economy the dropout rate increases. It is very simple. If you are a young person on the margin and you are faced with the opportunity of being in school or being unemployed, you will choose to be in school. If you are faced with the opportunity of having a job or being in school, you'll more likely drop out.

I am not advocating unemployment as a policy tool to keep people in school; I'm simply pointing out that keeping people in school should be one of the central pieces of a youth employment policy, as Congressman Scheuer described it. The exemption may help, but paradoxically as a side effect a lower minimum wage for youth would not help.

Representative LUNGREN. Congressman Scheuer.

Representative SCHEUER. I'm not sure that keeping people in school just as a principle would be that all powerful a policy consideration. Many of our urban schools are just places where they try to keep the kids from savaging each other between 9 and 5 and very little learning goes on.

Given a choice between just passing the time with a minimum of violence and a minimum of drug addiction without your lunch money being ripped off and, on the other hand, getting your academic skills, your reading and writing and counting skills spruced up in an alternative to the regular school environment, learning some job skills and learning something about that great world of work out there and learning some self-confidence, then I would take some kind of a work-study program in place of a school any day of the week.

So I think we have to look at the whole smorgasbord of possibilities.

Let me ask both of you the question this lead to. If we were to say to you that we want to get those kids on the ladder somewhere, either at less than the minimum wage or at the minimum wage; that we want them either on the job, in some kind of a release time or work-study situation, or in school; that we want them to get their skills brushed up, their academic skills, their reading, writing, counting;

that we want them to start learning relevant job skills, relevant, as Mr. Williams said, to what the market really is looking for; and that we want them to learn behavioral skills and self-esteem skills, if that's a skill; than what is the mix of factors?

To my mind it doesn't necessarily include keeping them in school. If the school is right, obviously that's great. But if the school is anything like a lot of the schools in my hometown, in New York City, where the school seems to have given up to a large extent on teaching these kids very much and seems to be concentrating on keeping them out of drugs and keeping them from delivering massive mayhem on each other, then maybe an alternative to school is better

If they have been as turned off by the schools as the dropout rate and their behavior in school seems to indicate, maybe we ought to look to giving them both academic and job training in a nonschool environment. Maybe it should be on the job. Maybe we should pay corporations to give them a work-study experience with 3 or 4 hours of work in the day, at the plant, at the office, whatever. Maybe we can teach them reading, writing, and counting, and computer literacy as part of some kind of a course. This kind of program is in effect a glorified apprentice course of the kind with which we have been experimenting with here and in Europe for the last 700 or 800 years. Perhaps there is nothing new under the Sun.

What are the ingredients that you can think of that Congressman Lungren and I, and others, should be playing around with? What are the component parts of that kind of a program? A program that would put kids either in school or in a nonschool environment? That would give them the academic skills, the job skills, the self-esteem we want them to have, so that they will be motivated to really make it out there in that world of work?

Mr. OSTERMAN. I think I would talk about several different kinds of programs. I don't think it makes sense to talk about one program for everybody. For youths who have already dropped out of school, I think that the first step is to see if is possible, as you suggest, to get them into an alternative education program, because the illiteracy rates among these youths is astronomical and they simply are not going to find good jobs.

Under CETA and under the first year of JPTA a number of different kinds of models of alternative school programs have been developed emphasizing, in the jargon, competency based education, that is to say, education that looks at skills and reading and writing talents that are job related. And it is possible to put together programs for dropouts which are successful. In Chicago there is something called the Alternative School Program; in California there is something called the Peninsula Academy. Those kinds of programs do exist.

I think those kinds of programs need to be fairly lengthy. They can't be programs which you put somebody in for 3 or 4 months and expect there to be a payoff.

The best example of programs like that is the Job Corps. The payoff to the Job Corps is quite high. The disadvantage to the Job Corps is it is very expensive per youth. It is possible to design cheaper models.

For people who are still in school who are teetering on the edge, I'll describe briefly one program. It's called the Boston Compact; it's in Boston. It's a program in which the business community in Boston has

said to the school system the following: We will provide high school graduates with jobs; we will guarantee every high school graduate an entry level job, provided, A, the kid graduates, and B, that the school system reforms itself. That is to say, the school system sets certain performance goals, increased reading levels, increased math levels, and so forth. It is possible along that dimension or other ways to design ways to work with the school system.

So I think you need an in-school program, an out-of-school program; I think you need to involve the business community. I think we have examples of programs that work.

Representative SCHEUER. Mr. Williams.

Mr. WILLIAMS. I guess the response to your question, sir, depends on your vision of the world. My own particular vision of the world is that people can find their own solutions to their own problems if they are permitted to. One way of helping people climb up the economic ladder is to stop breaking off the bottom rung of the economic ladder, so to speak, by eliminating those entry level jobs through all kinds of laws.

But I would say that the primary thing that Congress can do, if it can do anything, is to maintain the kind of fiscal and monetary policy that creates a robust economy. That's No. 1.

In terms of dealing with the grossly fraudulent education, I think that there is considerable evidence that the problem is the public school system itself, its monopoly over education. Even in your district, a lady I know very well, Ms. Simpson, runs the Lower Manhattan School, a black school and Hispanic school, and those kids come out reading very near the national average. We have Marcus Garvey School in Los Angeles, an all-black school, whose third graders were tested out reading at a higher level than white sixth graders in Los Angeles. Marva Collins writes me very often. I was bragging about her kids reading 1 or 2 years above grade level. She told me, "Williams, when you brag about them again, you tell them that some of them are reading at the 2d or 3d year college level." The black Muslim elementary schools—their kids come out reading very close to national norms.

These cases that I just cited, which are maybe four among possibly 250 or 300 in the United States, these are schools where parents have opted out of the public education system. They have opted out of the monopoly control by the public education system.

It seems like the solution to improve education, particularly for minority kids, but for kids in general, is to provide a greater mechanism for more parents to opt out of rotten schools that are destroying their kids' upward mobility on a day-to-day basis. And so therein you have a very, very good argument for Congress to seriously consider something like tuition tax credits, to give parents at least some of the power.

I might mention that so far as all this great education is concerned these black Muslim schools and the Norma Collins schools, they are not going out and capturing a white kid for the black kid to sit beside in order to produce black economic excellence. They are doing it all by themselves.

Representative LUNGREN. I hate to interrupt you at this time. We have a vote on and we have about 6 minutes to get there. We will come right back.

[A brief recess was taken.]

Representative LUNGREN. Mr. Williams, when we left, I think I interrupted you as you were finishing your response, and if you wish to comment further on that, I would be happy to have that as part of the record.

Mr. WILLIAMS. I just wanted to make sure that people knew that black people, poor people can indeed find options to their own problems. The 250 schools that I mentioned, nonpublic schools, independent schools, I think that one of them may receive Government funding. In fact, the strong position of virtually every one of them is that Government funding or Government assistance is indeed a hindrance and will prevent them from carrying out their tasks.

In addition to these 250 or so independent schools that are providing some credible education to black kids, you have to keep in mind all the parochial schools. If you go to some cities and look at the parochial schools, some parochial schools you will find are 95 percent black and 90 percent Baptist. What this represents are black parents, some of them working two jobs, trying to improve the education for their kids.

What I am saying is that what we need is more of this, and I believe it will impact favorably in the job market opportunities that teenagers will face in the future.

Representative LUNGREN. Thank you.

Mr. Osterman, on the substitution effect, that is a question that always plagues any suggestion of any type of youth employment wage. It's probably one of the most serious obstacles the advocates face, at least in the Congress, in getting enough people to vote for any such proposals. You have indicated that you think it is a serious question. Mr. Williams has suggested that studies would not be able to pinpoint precisely who is helped and who is hurt. He then went on to point out that the minimum wage as it applies does discriminate in favor of one group over another. But my question to you is a little different, and that is, isn't the magnitude of the substitution effect difficult to ascertain in virtually all employment programs? In other words, if you have programs that are targeted at youth, don't they also, if you follow the logic of your argument with respect to the minimum wage differential, have the effect of substituting these young people, who have been given some sort of advantage by virtue of some sort of legislation over other employees or potential employees?

Mr. OSTERMAN. I think the answer to that question depends on precisely what kind of program you are talking about. Let me just indicate that it is no more difficult to observe the substitution effect than it is to observe the so-called disemployment effect of the minimum wage itself. As I indicated, over the past 30 years, while the minimum wage has been increased and coverage has been extended for young people, youth employment has grown quite substantially. Far more youth are employed now than there were 30 years ago. And for white teenagers the labor market is just as strong in terms of the percentage of white teenagers employed.

So you have to engage in the same kind of statistical hypothetical analysis to observe the negative effect of the minimum wage on employment that you go through to observe the so-called substitution effect. The way you discover the substitution effect is by observing how sensitive adult employment is in general to the wages of young people. For example, you might notice over time when youth wages change adult employment changes, or you might notice that in some cities where youth wages happen to be high adult employment happens to be high; where youth wages are low adult employment is low.

It is the same kind of statistical exercise. It is that exercise plus the theory that if you lower the wage for one group you are going to get jobs for that group at someone else's expense.

Representative LUNGREN. Well, I guess my question is then, given that, isn't it true that you have a substitution effect with other programs that are aimed at targeting youth employment as opposed to employment for the entire population?

Mr. OSTERMAN. It depends on the kind of program, Congressman. If you are talking about, say, the targeted jobs tax credit in which you are providing a subsidy to hire youth, then the answer is yes, you are absolutely right. The only defense of that that I would make, at least in the case of a targeted jobs tax credit, that tax credit is available only to companies that hire disadvantaged youths, whereas the minimum wage itself is not so targeted; it helps all youth regardless of whether they are disadvantaged. But for the targeted jobs, tax credit that is correct.

On the other hand, for programs under the Job Training Partnership Act, for example, programs in which you put youths in a training program, the entitlement program under the JPTA legislation—and the entitlement, as you are aware, is under consideration now in a piece of legislation introduced by Congressman Hawkins—for those kind of programs in which those are new jobs created by the Government, then the substitution effect is much, much smaller and is hard to discern at all.

Representative LUNGREN. We obviously have a little different perspective on things. When new jobs are created by the Government, I know they are not created out of thin air; there has to be some money that pays for the jobs that comes from somewhere, which I assume is the private sector ultimately. That means those are jobs that potentially could have been created in the private sector, and so you have got to have some displacement somewhere, don't you?

Mr. OSTERMAN. That is a question that goes to the overall issue of whether any kind of Government spending displaces private sector economic activities. It is not specific to this. We could just as well be talking about defense spending.

Representative LUNGREN. I understand that.

Mr. OSTERMAN. The answer to that, I believe, is that it depends on the state of the economy. If we are operating at any economic level in which the economy is anywhere near full employment, then Government spending will displace private sector job creation; if we are operating at a level far below full employment, then Government spending won't. And that doesn't help you, because then you will ask me, are we near full employment now or not, and that is getting into

a debate to which you could get another two economists and they would give you another——

Representative LUNGREN. The answer is nobody knows, right?

Mr. OSTERMAN. The answer is everyone knows, but they all disagree. [Laughter.]

Representative LUNGREN. The only thing I am trying to get at, Mr. Osterman, is the complaints registered against the youth differential proposal seem to me to be complaints that in varying degrees can also be registered against other types of employment programs. We ought not to require the youth differential program to meet a standard that we don't require other programs to meet. That's the only point I'm trying to make.

Mr. OSTERMAN. It's a fair point. But I think there are two answers to it. One is that the displacement effect from job creation programs, such as the entitlement, there is no evidence that it's anywhere near as large. Remember, the evidence on the minimum wage that I cited is that in return for creating roughly 250,000 youth jobs you are displacing roughly 100,000 adults. I don't think you will find anybody who would argue that the magnitude of the displacement effect of other employment training programs is anywhere that order of magnitude. That's the first point.

Second, you have to ask who you are displacing, and this goes to an issue that Congressman Scheuer raised. When you lower the minimum wage for youths, you are displacing adults who work at the minimum wage. You are not displacing highly skilled adults; you are not displacing adults who might do better elsewhere; you are displacing poor adults who have families to support. When you raise moneys through the tax system and create jobs for disadvantaged youths, the people you may be displacing cut across the entire economic spectrum. It's a very different distributional impact. You may be creating jobs for poor minority teenagers at somebody's expense, but at least it is not at the expense of poor minority adults.

Representative LUNGREN. Let me just ask you this. You have suggested the administration's figures on the possibilities of job formation taken from the commission report are overly optimistic because the commission report was talking about a subminimum wage for the entire year and the proposal is for summer months. Don't we have to look at the youth employment wage defined just to the summer months, and wouldn't that suggest that the substitution effect would be slightly different? Do you really assume that employers are going to fire year-round employees or not hire someone they see as a year-round employee in order to hire a summer youth for a somewhat reduced wage?

Mr. OSTERMAN. I think you are right, Congressman. I think the benefits would be less; if the benefits are additional youth employment, the benefits of the summer jobs differential would be less, and the cost would be less, the substitution effect would be smaller. I don't think the substitution effect would be zero though, because I think that most minimum wage jobs, if you think about them, are casual, high turnover employment, and many poor adults work in jobs that are created in the summer, casual construction jobs, casual jobs related to vacations, and so forth. There are adults, unfortunately, who must make their living holding these kinds of jobs.

So the substitution effect is not zero, but it would be smaller, and so would the benefits be smaller.

Representative LUNGREN. I understand.

Mr. Williams, would you like to comment on the question of the substitution effect?

Mr. WILLIAMS. I just see no evidence for a very, very adequate way to predict the substitution effect, and as I said, it's an empirical question. We know that it is not going to be zero and we know it's not going to be 100 percent.

In looking at the whole context of jobs, that the effect of a subminimum wage would be a substitution effect, I think that we don't recognize that right now at $3.35 an hour plus all those mandated fringes there are a whole lot of jobs that are going undone or jobs that have not been born. Of course, there is no really good way an economic theorist can predict how many jobs would be born or how many jobs went unborn as a result of minimum wage. Maybe hotels would decide to keep their corridors cleaner by hiring some kids to clean them out, or maybe grocers might hire kids to bag groceries, or maybe, as I mentioned earlier, we might have ushers in theaters again, and perhaps even the Western Union might deliver telegrams by bicycle again.

I think that the consideration is not fully in the issue of trading jobs between adults and kids. As I said, and I believe Mr. Osterman would agree, it is a what-if type question, and the substitution ranges between zero and some other number. We just cannot tell. But, however, we could tell if you did make a subminimum wage law. We could bring you empirical evidence 2 years from now to be able to identify more accurately the substitution effect.

Representative LUNGREN. Mr. Williams, does the effectiveness of the lower wage rate in generating jobs that would be done but are being foregone at the present time depend on the good will of the employers? Or is there any way that economically we could suggest it would be in their own interest?

Mr. WILLIAMS. My God. If I had the right to rule the world, and if I had to identify human motivation, I would ban——

Representative LUNGREN. This Congress is powerful, but we don't quite have that power. But go right ahead.

Mr. WILLIAMS [continuing]. Human good will. Because, as a matter of fact, if you go through history, you will find some of the most heinous crimes done to man have been done in the name of good.

Let me give you one scenario. Mr. Osterman, he can be the proprietor of a theater and he has no ushers. And let's say if I could hire kids at $2 an hour, $2.50 an hour, I might hire ushers. It is not because I love the kids or I love my clientele, but I love getting his customers, because having more customers, attracting his customers away from him, will indeed improve my wealth. So I am saying it does not require good will of employers to find out ways to provide their clientele with more services in order to attract customers.

I think that one of the remarkable differences that we all want to recognize is that in the open market our transactions are voluntary; that is, the only way I can get a customer into my theater is to please him better than my competition. Unlike the Government, I can't draft

him and force him to come to my theater, so I depend on voluntary relationships, and therein lies my incentive to improve the service.

Representative LUNGREN. Well, let me ask the question a little differently. Some critics of this proposal charge that if employers are allowed to pay their young summer employees $2.50 an hour as opposed to $3.35 they will just leave the employment levels where they are, unchanged, and pocket the 85-cent difference. How do you comment? I would like both of you to comment on that.

Mr. WILLIAMS. According to the standard economic literature—there might be some new literature out—profits give rise to entry in markets where entry is feasible. These so-called windfall profits that would accrue to firms as a result of their pocketing the 85-cent difference, this would be observable not only in the New York Stock Market, but would be observable by their potential competition, and the potential competition would no longer be potential, they would enter and bid away the profits. I think the basic safeguard to this kind of thing not occurring, the windfall 85 cents, is to ensure that there is competition.

Representative LUNGREN. Mr. Osterman.

Mr. OSTERMAN. I think the theory that Mr. Williams alludes to is the theory of pure competition, and those of us who believe that we live in a world characterized by the economic textbook definition of pure competition would be willing to accept that logic. I think the evidence is quite the contrary, that we don't live in that kind of a world, and in fact much of what we have heard by Mr. Williams and other critics of the minimum wage is that we don't live in a world of competition; they wish we did.

I think two things would happen. One is that some additional employment would result at the $2.50 an hour. Some of those would be the new jobs that Mr. Williams described, the new ushers. I think that would happen. Some of the other youth employment created would be jobs at the expense of adults. Right now when I go to a hotel I observe adults cleaning the corridors. They don't make very much money, but they have a job. It may be the case—in fact I'm telling you it is the case—that next time I go to the hotel, if the differential passes, I will observe more teenagers cleaning the corridors. Some of that will be new jobs, but there will also be some adults who won't be there who would otherwise be there. That's the employment effect.

Then there will be the so-called windfall profit effect. I don't want to tell you it's good or bad, but it's there. Firms that would hire kids otherwise at $3.35 most certainly will not out of their good will continue to pay them the $3.35. We don't believe in good will. You just heard that. They will pay them $2.50. That's why I said that the minimum wage does in fact provide redistributional benefits to lower income people. It costs some jobs, but those who do keep their jobs or get jobs are employed at a higher wage. On balance, all of the evidence is that that higher wage effect dominates.

Representative LUNGREN. Let me ask you this sort of generic question, Mr. Osterman. We have seen data which suggest that the gap between white and nonwhite youth employment has spread substantially over the last decade so that now it is in the neighborhood of 25 percentage points. During that same period of time the minimum wage has not only increased but the universe or the number of em-

ployees covered by minimum wage has risen substantially. Do you believe that there is any impact of the minimum wage, both the spread of the coverage of the minimum wage and the increase of the minimum wage over those years, on the increasing gap between white and black youth unemployment?

Mr. OSTERMAN. Yes, I do believe there is an impact. My point is that the impact is small relative to the gap, and that to enact a policy to get at that small impact would have substantial costs; namely, it would cost adult employment.

Let me make one additional point. The largest increase in the minimum wage in terms of the level of the minimum wage, and more importantly, the coverage of the minimum wage for teenagers, occurred in the mid 1960's, but the collapse of the black teenage labor market, the real collapse of it, occurred in the 1970's. The evidence is, just to be repetitive, that the minimum wage has an impact; it's a small impact relative to the size of the problem; and the minimum wage, were it lowered for youth, there would be real costs of adult employment.

Representative LUNGREN. Let me try to ask another question in this area. In your prepared statement you point out that many youths, a substantial portion of youths, who have minimum wage jobs now are relatively affluent. You suggest that minority and disadvantaged youths would not proportionately benefit from a lower minimum wage. That study commission that you talked about had a table that I have had a chance to look at that indicates that 56 percent of employed youth aged 16 to 19 earned more than the minimum wage in 1981. My question is this. Can we know or guess whether these 56 percent who earn currently above minimum wage are more likely to be white and affluent than those youths working at the minimum wage? And if we were to raise the minimum wage, would you expect to find that those youths who are disproportionately affluent would tend to have the lion's share of those jobs?

Mr. OSTERMAN. The study commission, among its other findings, was very clear that they were unable to find any evidence that minority youths disproportionately would benefit from a lower minimum wage.

Representative LUNGREN. I'm asking the other side of the argument that you propose, that if you lower the minimum wage it is going to disproportionately affect affluent youth; they will get the jobs more than the disadvantaged youth. Are you suggesting the same thing happens if you raise the minimum wage? If you raise the minimum wage, wouldn't you also, by your argument, be affecting mostly the affluent youngsters? And in fact, the higher you raise the minimum wage, wouldn't you even more disproportionately affect the job market such that the affluent youth would be more apt to get those jobs as opposed to the disadvantaged youth?

Mr. OSTERMAN. Let me kind of describe to you my sense of how this labor market is working. Most teenagers work at jobs near their home. First, most teenagers are in school and the jobs they hold are after-school jobs. For those who are out of school that do not travel—16 to 19 year olds generally do not travel great distances to work. The distribution of teenage jobs is therefore very similar to the distribution of where teenagers live. Downtown in inner city areas most jobs are

held by minorities or whoever happens to be living in those inner cities. In the suburbs most jobs are held by whoever lives in the suburbs. As you raise and lower the number of jobs you have an impact on the local jobs. That is why an increase in the number of jobs created by a decrease or an increase in the minimum wage, however it goes, is going to have an effect on where people are. Very few suburban kids are going to travel downtown to take a newly created job at a mom and pop store in the inner city, and very few inner city kids are going to travel out to the suburbs.

Representative LUNGREN. Let me ask a question on that. We have in the Washington, DC, area suburbs that are substantially, if not majority, black. Is the youth unemployment situation in those areas substantially different from black youth unemployment nationwide? Does the fact that they live in the suburbs make a substantial difference in the percentage of black teenage unemployment that we see today?

Mr. OSTERMAN. I don't know about the Washington, DC, situation particularly. But I do know that nationally the data tends to show that black-white differentials do not vary according to where people live. That is one of the reasons why you begin to think that there is something else going on besides that.

Representative LUNGREN. You see, I don't understand then. You tell me that changing the minimum wage would not make a difference in black teenage unemployment because the jobs are where the people are. But if you tell me that black teenage employment doesn't change with respect to where they live, whether it's the surburbs or the inner city, I'm at a loss to understand why.

Mr. OSTERMAN. I'm not saying it wouldn't make a difference, Congressman; I'm saying it wouldn't make a more than proportional difference. I've testified that a 25-percent differential in the minimum wage would create an additional roughly 250,000 jobs for young people. Some advocates of that lower minimum wage claim that those 250,000 jobs would go more than proportionately to black teenagers, that they might all go to black teenagers, or that half of them might go to black teenagers, because black teenagers are very low skilled, so the argument goes. All I am saying is that black teenagers would get their share of those additional jobs, but not more than their share, and the reason is because many of those additional jobs would be created in places where black teenagers don't live and they are not about to travel long distances for a $2.50-an-hour job.

So I am saying it has no effect on black teenagers; I'm saying the effect is no greater for them than it is for white teenagers.

Representative LUNGREN. I hope we are not talking circles around one another. What I was trying to find out from you is if there is any data that suggests that black teenage unemployment in the suburbs of the Washington, DC, area, for instance, is substantially different from black teenage unemployment in Washington, DC, one being the inner city, the other being the suburbs. I thought you told me there doesn't appear to be much difference depending on where they live. If that is true, then the argument that a youth employment opportunity wage would not affect black teenage unemployment because it is substantially caused by where they live, the inner city, doesn't follow in respect to black teenage unemployment in suburbs and other areas.

Mr. OSTERMAN. I don't think we disagree. Black teenage unemployment in the suburbs—I don't know the Washington suburbs—there is a big impact of education levels on unemployment rates. So, for example, if people who live in the suburbs have higher education levels, then they are going to have lower unemployment rates. There is a big impact of family income. People who come from more affluent families have less unemployment. So if people who live in the suburbs come from more affluent families, their unemployment rates will be lower. So probably teenage unemployment in the suburbs, both for whites and blacks, is lower. I have to qualify that by saying what you already know; namely, that there are some so-called suburbs that have taken on the characteristics of ghettos. That is one part of my answer.

The second part of my answer is, just to be repetitive, I'm not saying that the lower differential would have no effect on black teenagers: I'm just saying it would have no greater effect on them than it would have on white teenagers.

Representative LUNGREN. Let me ask you this, and then I would like to ask Mr. Williams to comment. I don't believe anybody is offering the youth employment opportunity wage as a panacea; they are offering it as one of a mix of things that are being tried by the Government. I recall working in my own hometown in the summers managing a recreational facility as well as teaching classes there. We had assigned to that area young kids primarily from the inner city, although I don't think it was limited to the inner city, who had a government sponsored job for the summer. But I will tell you this. Because the job was not a real defined job in which it made a difference, they sort of got the idea they really didn't have to do anything. And it really wasn't their fault. They were more of a problem for the supervisor because he had two other people to check who were doing a job that really wasn't consequential.

I always thought, just from that anecdotal experience, that perhaps even worse than denying someone a job opportunity is to give them a phony job opportunity where they think all they have to do is show up at 8 o'clock or 9 o'clock in the morning and leave at 5 and they get a paycheck and virtually do nothing. That phony job experience changes their attitude toward work at a very impressionable age. And I'm afraid that a lot of our job programs, as well intended as they are, make available jobs that everybody recognizes are not entirely necessary. My feeling is the more you can gear job opportunities—and I realize it's not a perfect market—to a private sector where the employer may be working out of some good will but at the same time has a bottom line he has to meet, the more real that job experience is going to be and the better that experience is going to be for that person who has entered into the job market for the very first time.

That is why I see a youth employment opportunity wage as perhaps different than other programs, as well intended as they may be and even with the problems you suggest they have.

Do you see any problems with the government-sponsored program—I'm not saying because they are do-gooder or whatever—because of the essential nature of the program?

Mr. OSTERMAN. I think what you express is a widespread concern, one that many people have about Government job programs. I guess I would have several things to say about that. One is, just in terms of the mechanics of it, over time, because there have been basically 25 years of experience with Government youth programs, a great deal more attention has gone over time into monitoring these jobs to assure that they are worthwhile jobs and that bad work habits are not the result of them. To give you a sense of that, in Massachusetts this year we hired a full-time staff, a fairly large number of people, to monitor the summer youth program to be sure that people showed up, that they did their job, that they performed.

I think increasingly people have recognized that this is a potential danger and increasing amounts of resources have gone in to prevent it.

The second thing I would say is that if one wants to engage in kind of anecdotal evidence, for every so-called leaf raking job or job in which nothing of substantial importance is done I can cite you a case in which a Government-created job involves day care, a Government-created job involves elderly care, a Government-created job involves weatherization, a Government-created job involves creating a playground for inner city people to have. In other words, jobs in which output of real value is created, in which the people who are engaged in that recognize that output of real value is being created, in which the job is well supervised, in which people have pride in what they are doing.

Now the question is, which is kind of the more predominant example? Is the one I've just described the characteristics of more typical, or is the so-called leaf raking job that creates bad work habits more typical?

I can't provide you with hard numbers, but I can tell you that both the Labor Department and all the States and all the so-called service delivery areas across the country now have put an increasing amount of resources in the last 5 or 6 years into monitoring work sites so that the good jobs, the jobs that have real value, are numerically more important.

I feel confident that by and large that is true. I would be a fool to tell you that someone can't come up with horror stories, but I can tell you that increasingly large numbers of resources are going into preventing that, and I can also tell you that there is enough real work out there of the day care, elderly care, weatherizing variety that people and communities that are determined to find worthwhile employment opportunities can find them.

So I think that that's a danger of Government jobs, but I think that it's a danger that can be avoided and a danger that is by and large avoided.

Representative LUNGREN. I do believe the JTPA program is far better than the CETA program; I think the problems we had with CETA probably were more on the side you first mentioned, and that is one of the reasons we moved in the opposite direction. I also served on the local Red Cross board in my area and we received grants for four CETA employees to teach CPR, which is an interesting thing. It's good. But I wonder if that teaches that person a skill that they are going to take somewhere else to work full time, unless they find another Red Cross agency that wants to pay someone full time. I

always thought it kind of distorted the system. Here we were, not willing to raise the money in our own community to put that priority forward, but we were very willing to have the Federal Government gives us that money. I'm sure that's a good program, but was that the most productive thing that individual could be doing based on the fact that the local community didn't think it was worthwhile to raise the funds to do that anyway?

But I appreciate the efforts that you and others are involved in right now with respect to JTPA.

Mr. Williams, would you comment on it?

Mr. WILLIAMS. First, before I comment, I would like to answer your question. It was not answered. No. 1, I would predict that raising the minimum wage law would hurt youth in general, but particularly black youth. I think the opposition wants to have it both ways. They say, well, if you lower it, you're going to hurt black youths; if you raise it, you're going to hurt black youths.

So far as these Government jobs, I am disgusted with people who support these Government CETA jobs, et cetera, et cetera. What they are saying in effect is, well, let's have real jobs for white people and funny jobs that depend on the political arena and who happens to be the President of the United States for blacks. As a black person I find that despicable.

I have a lot of contact with the Government jobs. My wife's family and my family still live in the poor slums of Philadelphia. Some of my teenage in-laws about three or four summers ago got some CETA employment washing graffiti off the walls around Philadelphia. Philadelphia is in need of graffiti removal, but whether that is a kind of job that provides long-range prospects is really a question.

There is the issue of incentives. Nobody, in the Government or Congress or the Senate, has to monitor McDonald's to see to it that their employees come to work and work before they get paid. It happens in and of itself. Why? Because the incentive structure is there. When you are dealing with somebody else's money, when the CETA people or the Manpower Training Program people are dealing with my money, then they do not have to be as accountable and they have a different set of incentives. Many of these Government jobs have no application in the market. They teach kids to be hustlers; they teach kids how to avoid, how to shirk the overseer; they teach them how to avoid being at the right place at the right time, how to make excuses—it turns them into hustlers. Unfortunately, these kinds of hustler talents do not have a high payoff in the private market.

The basic response to your question is that the government employment jobs will not be as effectively monitored in order to make sure that people develop the right work habits because they do not have the incentives. The whole issue is that when you are spending somebody else's money you are less careful than when you are spending your own money, and I think that our national deficit problem is a very, very good example of that.

Representative LUNGREN. We are just about out of time. If either one of you would like to make a final wrap-up statement, I'd be happy to have it for the record.

I just wanted to say that in looking at this question from the outset, I didn't want to have normal hearings where I hear from a panel that all agree. I really do think it serves us far better to get different points of view on proposals, even though I may share one view rather than another. I have found it is sometimes difficult for Members of Congress to remember from one hearing to the next the questions that were prompted by one person's testimony and hopefully have it answered when the opposing view is presented.

So I want to thank both of you very much for presenting your views. We didn't have a lot of commonality of conclusion here, but I think it helps to at least very much underscore the different approaches and the different opinions reflected on this very difficult issue that Congress loves to talk about. I'm not sure we have been very successful in dealing with it.

Do either of you have anything you would like to add for the record?

Mr. OSTERMAN. Thank you very much. I think it was a very thoughtful discussion.

Representative LUNGREN. Mr. Williams.

Mr. WILLIAMS. Nothing.

Representative LUNGREN. Thank you very much. The committee stands adjourned.

[Whereupon at 12:15 p.m., the committee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

STATEMENT

ON

YOUTH EMPLOYMENT AND MINIMUM WAGE

BY

THE NATIONAL GROCERS ASSOCIATION

Submitted by: Thomas F. Wenning
Executive Vice President
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Rose Kuiumgian
Legislative Assistant

BEFORE THE
JOINT ECONOMIC COMMITTEE
WASHINGTON, D.C.
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INTRODUCTION

Mr. Chairman and Committee members, the National Grocers Association (N.G.A.) is a national non-profit trade association representing 1600 independent retail grocery firms, 63 retailer-owned cooperative warehouses which service over 28,000 independent grocers, and 57 state and local food associations. N.G.A. members serve consumers in every type of community -- urban, rural, suburban and inner city -- by operating supermarkets, small and medium size grocery stores, as well as warehouse and convenience stores.

The association wishes to commend the Chairman and this Committee for holding a hearing on youth employment opportunities and the minimum wage, and for providing N.G.A. with the opportunity to comment on ways to provide employment opportunities for young people during the summer months. My comments today will focus on the effect

of the minimum wage on youth employment in the grocery business, as well as on the merits of current legislative proposals to provide an incentive for the food distribution industry to hire additional youth.

YOUTH EMPLOYMENT IN THE GROCERY BUSINESS UNDER THE MINIMUM WAGE

Since food retailers were first covered as enterprises under the Fair Labor Standards Act in 1961, grocers represented by N.G.A. have had a close and continuing interest in the impact of this law.

The retail grocery industry has traditionally been a large employer of teenagers for customer services, including bagging, carrying out groceries, retrieving carts, etc. As the federal minimum wage increased 46 percent from 1977 through 1981, retail grocers had to reconsider whether to retain such employment opportunities. Despite a willingness and desire by retail grocers to train and employ teeagers, economic conditions decreased teenage employment opportunities in food retailing.

In 1981, the National Association of Retail Grocers of the United States (NARGUS) (one of N.G.A.'s predecessor organizations) undertook a survey of retail grocers to evaluate the impact of the minimum wage on consumers, employees, and retail grocers. Five

hundred and fifty retail grocery enterprises operating 2555 food stores responded to the survey. The retail grocers responding employed over 60,000 employees, approximately 52 percent were part-time and 48 percent were full-time. The final report was submitted to the Minimum Wage Study Commission. Over seventy percent of the retail grocers responding decreased the number of teenage employment opportunities.

Under present law, instead of paying the minimum hourly wage or decreasing teenage employment opportunities, retail grocers have the option of employing full-time students at 85 percent of the minimum wage. While there are approximately 179,000 grocery stores in the United States, the U.S. Department of Labor estimates that only about 3,000 food stores used the full-time student certificates in 1984, down from about 3,700 in 1981. This alternative is inadequate, ineffectual, and a bureaucratic nightmare for retail grocers.

The regulations on employing full-time students at 85 percent of the minimum wage require special certification. Any retail grocery employer, including single units and multi-stores, may employ no more than six full-time students at 85 percent of minimum wage without prior Department of Labor authorization. To employ more than six full-time students, applications must be submitted for each store and employment may not commence until approval from the Department of Labor has been received.

A limit of 10 percent of the total monthly hours of all employees is imposed for employers seeking to employ more than six full-time students, unless a higher percentage monthly allowance can be established by historical information. It is difficult for an establishment to have a sufficiently high monthly hour total for employees to meet the 10 percent limitation. For example, it would take 16,000 hours or approximately 100 full-time employees to allow employment of 10 full-time students for 40 hours per week during vacation periods.

The effect of these paperwork and regulatory burdens has been to eliminate the incentive for retail grocers to hire full-time students. As a result, retail grocers have curtailed employment opportunities for youth. If employment opportunities for teenagers are to be expanded Congress must act to eliminate the paperwork and red tape.

CURRENT PROSPECTS FOR TEENAGE EMPLOYMENT

Unemployment for teenagers is currently around 19 percent, with a black and other minority teenage unemployment rate around 50 percent. In March 1984 almost 500,000 black teenagers were listed as unemployed. Many of these young people are unemployed because they

lack the skills and experience to earn the minimum wage and are unable to find jobs even in the summer months, when youth employment is at its peak. For example, in July 1983, only 54 percent of all white youth and 37 percent of minority youth were able to find jobs. Studies estimate that each year of work experience for a young individual is associated with a subsequent and permanent increase in wages of approximately 10 to 20 percent.

The Youth Employment Opportunity Wage Act of 1984 (S. 2687 and H.R. 5721), which has been introduced by Senator Charles Percy (R-IL) and Rep. Ron Packard (R-CA), respectively, is a positive step toward creating summer job opportunities for teenagers in the retail food industry. The legislation would permit the employment of teenagers ages 16 to 19 at $2.50 an hour from May 1 through September 30. It would prohibit employers from firing current employees to hire teenagers. Employers would also be prohibited from lowering the wage rate below $3.35 for any youth who has been employed by the employer at any time 90 days prior to May 1 of each year. The entire program would expire in 1987, and the Labor Department would have to submit a report on the effects of a youth wage to Congress.

The basis of the youth opportunity wage is to provide entry level jobs for teenagers. After gaining some work experience, those teenagers will undoubtedly have the same opportunity for advancement as other employees. Hiring teenagers to replace experienced

managers, clerks, stockers, and other employees in retail food stores does not make economic sense. However, providing a youth opportunity wage would enable retail grocers to establish and expand youth employment opportunities.

In addition, teenagers could perform tasks which greatly contribute to customer and community relations of a store, such as assisting elderly shoppers or women with small children. These tasks are often not cost effective under current wage rates and are often foregone by retailers in favor of more essential business functions. Stores that provide such shopper services not only retain more customers and enjoy greater visibility, but also create job opportunities for youth which are not feasible at the current wage rate. These young people would gain interpersonal and human resource skills in addition to a wage.

ANSWERS TO ARGUMENTS AGAINST THE SUBMINIMUM WAGE

Numerous arguments have been raised against creating a youth opportunity wage for teenagers. N.G.A. would like to address some of those arguments today.

First, that a youth differential will result in employers firing older workers and hiring teenagers. As the N.G.A. report indicates, increases in the minimum wage have decreased employment opportunities that have traditionally been available to teenagers in food retailing. In effect, the teenage job market in food retailing is shrinking or being eliminated. A youth opportunity wage will reverse this trend. The retail grocery members of N.G.A. are not going to hire a teenager at a low wage to replace a higher paid employee. The key to economic survival in the retail food industry is productivity. It makes no sense to fire a productive employee in a position of responsibility and hire an employee with little or no experience.

Besides, if this argument were true, employers today would be firing employees earning above the minimum wage by the thousands and replacing them with individuals at the minimum wage level. No study of the federal minimum wage of which N.G.A. is aware of has ever given serious credence to this theory in practice. Certainly, the Congress has not been overcome with cries to take action. From an employee relations point of view an employer who engaged in such a practice would likely jeopardize employee morale, gain an unfavorable reputation, and have trouble attracting prospective employees with valuable skills and qualifications.

Another argument against the youth opportunity wage is that employers will fire teenagers and replace them with new teenagers at the youth opportunity wage level. As mentioned earlier, training of store personnel is an investment by the employer in the employee for the betterment of the business. It takes time and money to train new employees. Little, if any, savings would result from continually replacing employees. One of the best assets a retail grocer can have is a stable reliable workforce.

S. 2687 and H.R. 5721 would subject an employer to severe penalties for engaging in a pattern or practice of substituting young workers earning the youth opportunity wage for older workers earning at least the minimum wage, or terminating young employees and employing other young employees in order to gain continual advantage of the youth opportunity wage. Employers would not only be subject to backpay penalties, but also to fines of up to $2,500 for the first offense and up to $10,000 for subsequent offenses. The penalties provided are a strong deterrent to employer abuse of the youth opportunity wage.

CONCLUSION

The youth opportunity wage offers employers an incentive to maintain and develop employment for youth. Continuing and persistent high unemployment of America's youth denies a vital private sector work experience. The advancement of our nation's productivity requires a commitment to providing as many teenagers as possible the responsibilities and benefits of employment. N.G.A. supports the youth opportunity wage and will work toward accomplishing the goal of expanding teenage employment. N.G.A. wishes to thank the Committee for the opportunity to testify in support of the youth opportunity wage.

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